



# University of Zimbabwe

## **Graduate School of Management (GSM)**

**TITLE: THE IMPACT OF GOVERNMENT TAXATION  
POLICIES AND ADMINISTRATION ON SUSTAINABLE  
VOLUNTARY COMPLIANCE BEHAVIOUR OF THE  
INFORMAL SECTOR IN ZIMBABWE.**

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## DECLARATION

I, do hereby declare that this dissertation is the result of my own investigation and research, except to the extent indicated in the Acknowledgements, References and by comments included in the body of the report, and that it has not been submitted in part or in full for any other degree to any other university

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## DEDICATION

I dedicate this project to my loving wife, Portia; your practical help and emotional encouragement as I pursued this course is highly appreciated. To my parents, Mr and Mrs Sithole and to all my wonderful siblings, I would not have made it without your moral as well as financial support, understanding and perseverance during my study period.

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## ABSTRACT

In an effort to widen the revenue base, the Zimbabwean government has of late realised the important role being played by the informal sector. In an effort to maximize revenue from the sector key tax policies and administrative practices have been enunciated and implemented. However there has been little to show for all these efforts as tax revenue from this sector has not been consistent and budgets cannot be guaranteed of income from this sector. The reason behind this failure to realise the potential revenues from the sector despite a raft of measures is the major thrust of this study. This study sought to investigate the impact that the formulated policies and administrative systems have had on the sustainable voluntary tax compliance by the informal sector in Zimbabwe and specifically focusing on the manufacturing sector operating within Harare's Siyaso area. The researcher realised that the issue of sustainability within the informal sector has continued to be left out by studies on this sector, and therefore sought to fill this gap. The researcher targeted manufacturers of wood, metal and cement products among many other. The researcher did a review of literature and identified taxation policies and administrative factors as the independent variables, whilst sustainable voluntary compliance made up the dependent variable. The study was quantitative in nature and given the population of registered informal sector businesses, the researcher settled for a sample size of 345 participants. Although the researcher was cognisant to the fact that manufacturing within the informal sector takes various trades, the fact that these are governed by the same taxation policies and administrative systems, the simple random sampling procedure was adopted. Data was collected using the self-administered questionnaires and consequently analysed, aided by the statistical software package SPSS. The findings of the study revealed that although taxation associated costs and availability or non-availability of tax education positively relate with sustainable voluntary compliance, these factors do not significantly impact sustainable voluntary compliance within the informal sector. However, the study found out that compromising the tax principles of fairness, equity and certainty and disregarding the fiscal exchange principle in tax administration significantly impact sustainable voluntary compliance within the sector. By gaining an understanding of these underlying factors, the authorities, should enunciate policies that results in a tax system that is robust, whilst ensuring that taxpayers benefit and receive services from paying taxes. These measures will go a long way in ensuring sustainable voluntary compliance behaviour within the sector.

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## ABBREVIATIONS AND ACRONYMS

<b>BOP</b>	Balance of Payment
<b>GDP</b>	Gross Domestic Product
<b>SME</b>	Small and Medium Enterprises
<b>ZIMRA</b>	Zimbabwe Revenue Authority



## CHAPTER 1: INTRODUCTION

### 1.1 Introduction

Whilst the growth of the informal sector has economically benefitted many countries, developing and those developed, the growth has exposed revenue authorities to a major fiscal challenge, that of sustainably collecting revenues in the form of taxes, to fund national expenditure. This has largely been attributed to the fact that the numerous enterprises operating in the informal sector are largely escaping the tax net despite the fact that revenues from it are included in the national revenue mix and budgeted for in national budgets. Taxing the informal sector has not been easy given the way that this sector is structured. A raft of measures, administrative systems and policies have been enunciated and continue to be formulated in order to bring the informal sector into the tax bracket and have it as a guaranteed source to national fiscus. However little success has been recorded. In 1997 the Internal Revenue Services, the revenue authority of the United States of America, in its revenue collection policy formulation considered an approach of regarding taxpayers as customers. The idea behind this philosophy was mainly centred on the retention aspect of it. Just as businesses do well if they are able to retain customers, taxing individuals and businesses should not be a cumbersome process to the authorities. Instead it should be voluntary on the part of the taxpayers as this ensures its sustainability. It is this approach and basis that motivated the researcher to look into whether existing policies and administrative systems enunciated, and those that continue to be crafted, by the Zimbabwean government do regard taxpayers as such and do these positively influence voluntary and sustainable compliance and remittance of taxes by the informal sector.

### 1.2 Background to the study

The informal sector has of late become one of the cornerstone to the country's economy contributing immensely to the country's economic fundamentals such as employment, Gross Domestic Product (GDP), Balance of Payment (BOP) position and the general economic growth and according to an article in The Herald (May 2016) by Masunda A, the sector in Zimbabwe is sixth largest in the Sub-Saharan region, contributing between 40 percent and 50 percent to economic growth. This was further concurred

to by Schneider, Buehn and Montenegro, (2010), who claimed that the informal sector constitutes a large component of the economy in many developing countries. The relative volatility of aid and natural resource revenues, according to Mascagni, Moore, and McCluskey (2014) has called for greater concentration and reliance on domestic non-resource taxation revenue which would allow for more financial stability, predictability and control. Tax revenue, in this regard comes in handy and has arguably proved to be more sustainable, and has been more resilient since the 2008 financial crisis, than aid and natural resource tax revenue in developing countries. Taxation of the informal sector is gradually assuming centre stage in the drive for revenue and general economic growth in many countries and the sector will remain a major feature in economic activity in Zimbabwe and many other developing countries. In some countries, this sector has been showing rapid growth over the past few years and is now much larger than the formal sector according to an ILO report, of (2013). In Zimbabwe it has become very visible and is the new formal sector in the contemporary world. The Herald (May 2016) concurred to this fact by arguing that local SMEs have now overtaken the formal sector as the biggest employers in Zimbabwe. For Zimbabwe, the bedevilling economic rot exacerbated by high unemployment levels has made the informal sector the ultimate survival destination for many including the government which is now becoming heavily dependent on it especially for its tax revenues. To address the collection of revenue from the Informal sector, the Zimbabwe Revenue authority (ZIMRA) employed the Presumptive Tax Policy (Act Chapter 23:06). (GOZ, 2005). The introduction of the Presumptive tax legislation in Zimbabwe was an effort to widen the revenue base in view of the increase in informal business activities in the country. However because of the nature of the sector it has proved very difficult for the government to have an easy go in tax collection just like it does with the formal sector. Informal enterprise owners have attributed the low levels of compliance to a number of reasons and according to Baer (2013), these include high compliance costs, complicated compliance procedures, and low risk of detection, a lack of confidence in the government and the high physical mobility of operators who are difficult to locate among many other reasons.. This has motivated the crafting of various measures intended to combat this with the intermediate money transfer tax being the recently crafted measure. This aimed at fully bringing the informal sector into the tax net. Despite a raft of measures including the very punitive ones, the authorities have not recorded any success in this regard. The informal sector continues to record low tax revenues than those anticipated with slight increases being the



resultant of the compulsory intermediate money transfer tax. This is a clear indication that sustainable ways have to be found to coerce the SMEs to voluntarily pay taxes due to government. Why SMEs operators are noncompliant with tax payments when there are a raft of measures to ensure payment and when failure results in heavy penalties? Is the penalties mentality by ZIMRA the best method to use in enticing SMEs to be compliant? The failure by the authorities to record success in this regard despite a raft of measures motivated the researcher to take a different dimension in as far as analysing taxation of the informal sector is concerned. The main question that has not been answered in the literature and Zimbabwe in particular is why does the informal sector continue to record low tax revenues despite high employment levels in the sector and a raft of measures? An approach of determining policies and practices from a perspective of their influence or impact on voluntary remittance and compliance can be a sure way of incorporating the informal sector fully into the tax net without much hustle and cost incurring. This study therefore sought to determine whether the existing tax policies and administrative practices have a positive impact on voluntary and sustainable compliance and remittances by those in informal trade, and if yes, how and what are some of these policies and practices and if not, why, and which policies and administrative systems ought to be implemented to achieve sustainability in tax compliance.

### **1.3 Statement of the problem**

The informal sector is one fast growing sector in the country and becoming one of the economic cornerstones to the country's economic growth. The recent and widespread recognition that the informal sector plays a critical role in the government revenue mix definitely places importance on the sector. Logically it follows that the informal sector should contribute to the national fiscus through taxes. Efforts have been made in the recent past to collect tax revenues from the informal sector in Zimbabwe. Although there has been increases in the amounts collected, there has not been consistency in the pattern and this has raised questions on the sustainability of informal sector as a source to national revenue (Acting Business Reporter. 2014, January 14)). There are high levels of tax evasion and non-compliance within the informal sector despite a raft of measures to combat this. The tax administration's efforts to encourage quasi-voluntary compliance has not yielded much positive results. Where compliance is existent it is forced and is too

costly, and never voluntary thereby compromising its sustainability as a revenue source. This notion was confirmed by an article in the Sunday Mail (02 February 2020), where ZIMRA emphasized the use of penalties, interest and prosecution as a way of discouraging non-compliance that has been rampant within the sector. The study, given this background, sought to establish whether the existing tax policies and how they are administered help to positively influence the informal sector to willingly comply to tax obligations without much hustle and cost incurring on the part of the government in order to improve tax revenues and have the informal sector as a sustainable source to national revenues.

#### **1.4 Research aim and objectives**

In light of the problem stated above, the overall research goal of the study was to investigate the impact that taxation policies and administration have on sustainable voluntary tax compliance behaviour of the informal sector. The specific objectives were to:

- Quantify the impact of the tax costs on sustainable voluntary compliance by the informal sector.
- Ascertain the impact that tax education have on sustainable voluntary compliance behaviour of those in the informal sector.
- Determine the extent to which tax principles of fairness, certainty and equity positively influence sustainable voluntary compliance behaviour within the informal sector.
- Establish whether the fiscal exchange principle play any role in positively influencing sustainable compliance behaviour within the informal sector.
- Recommend strategies, tax policies and other tax administrative factors that can positively influence sustainable voluntary compliance within the informal sector.

#### **1.5 Research questions**

The main question that the research sought to answer was, what impact do taxation policies and administration have on sustainable voluntary compliance behaviour of the informal sector? The secondary questions the research sought to answer were:

- What impact do tax costs have on sustainable voluntary compliance by the informal sector?
- Does tax education play any role in coercing potential taxpayers to voluntarily comply with their tax obligations?
- To what extent do the taxation principles of fairness, certainty and equity influence sustainable voluntary compliance behaviour within the informal sector?
- Does the fiscal exchange principle have any impacting role in the behaviour of participants within the informal sector in as far as voluntary compliance is concerned?
- What tax policies and other administrative strategies can be implemented in order to encourage sustainable voluntary compliance behaviour within the informal sector?

### **1.6 Research Hypotheses**

The main hypothesis that the study sought to prove or disapprove was, taxation policies and administrative factors impact sustainable compliance behaviour of those in the informal sector. The sub hypotheses were:

- Tax costs negatively impacts voluntary sustainable compliance behaviour for those in the informal sector.
- Tax education positively impacts sustainable voluntary compliance behaviour of the informal sector.
- A taxation system that satisfies the principles of fairness, certainty and equity positively influences sustainable compliance levels within the informal sector.
- Ensuring fiscal exchange amongst tax stakeholders positively promotes sustainable voluntary compliance behaviour by the informal sector.

### **1.7 Justification of the study**

The informal sector is fast growing and is supposed to contribute significantly to the country's revenues. Its failure thereof despite the continuous enunciation and implementation of policies and reforms places a lot of interest in the subject.

### 1.7.1 Theoretical Significance

Theories on the informal sector in as far as taxes are concerned have been developed over decades. For example, Lewis (1954); Todaro (1969); Singer, (1970); ILO (1972); Hart (1973); Piore and Sabel (1984); Portes, Castetells and Benton (1984); and Chen (2012). The major emphasis by all these theorists on informal sector taxation has in most cases dwelt on formulation of policies that ensure tax inflows and the challenges that tax authorities face in attempting to collect tax from the sector. A plenty of literature appear to exist on this subject. No major emphasis has ever been placed on the influence that these policies have on sustainable voluntary compliance by the informal sector. This then formed the point of departure in this study. This study helped develop a framework to explore voluntary tax compliance behaviour among SMEs and assist authorities in improving ways of dealing with the sector. Under normal circumstances tax compliance should be voluntary. However for one to voluntarily remit supporting and favourable policies and administration systems should be in place. The research is also of great interest to would be scholars and researchers who may require knowledge or some advancement in their knowledge in the field of sustainability of tax compliance.

### 1.7.2 Practical Significance

The study also tried and recommended policies and tax administrative systems that not only ensure high revenue collections but those that ensure sustainable and voluntary compliance by the informal sector. These include ensuring a tax system that satisfies the principles of fairness, equity and certainty, and ensuring fiscal exchange between the authorities and the potential taxpayers. This will ultimately go a long way in assisting and complementing the efforts of the authorities in as far as tax collection is concerned. The sector has the potential to contribute significantly to the growth of the economy taking into cognisance the fact that to achieve voluntary compliance, there must be corresponding policy initiatives. Currently tax collection from the informal sector is laborious and costly. However enunciation of policies and administrative systems which positively influence voluntary compliance will go a long way in lessening the burden and cutting the costs. Also, and according to Leal Ordóñez, (2014), high taxation compliance levels by the informal sector increase labour productivity and output by reducing economic distortions. This therefore also places importance on the study.

### 1.7.3 Methodological Relevance

Most recent researches held on the subject have been qualitative in nature. This has been necessitated by the areas the researches have tended to concentrate on. Researches on policies that ensure inflows of taxes, challenges faced in tax collection in the sector have been held extensively. Because of their nature, the qualitative approach has been the most appropriate approach. However, in this study the researcher adopted a different approach and assessed the sector using quantitative approach, where implemented policies and administration of tax thereof, were assessed based on their influence on compliance behaviour. This, the researcher, thought was a different perspective to the whole subject matter. The researcher thought, by adopting this, a new perspective will be brought in hence beneficial to the authorities and ultimately have the sector incorporated fully in the tax net, which has basically been the main goal of many researches held on this subject.

### 1.8 Scope of the research

The research looked at the informal manufacturing sector in Harare Siyaso market and assessed whether the existing tax policies and its administration thereof influence their behaviour in as far as voluntarily complying and remitting of taxes is concerned. The existing policies and their role in as far as influencing sustainable voluntary compliance was assessed. The impact of its administration on sustainable voluntary compliance within the manufacturing sector was also determined. Finally policies and administration practices which the researcher felt could address the present challenges facing the sector were recommended.

### 1.9 Limitations of the study

The researcher incorporated and committed informal traders in the manufacturing industry at Siyaso market in Harare and tax authorities in the study. Because of the nature of these participants, the study itself and the political environment especially which the participants find themselves in, the researcher faced difficulties in obtaining true and actual information that these participants hold. Besides challenges in obtaining information, time constraints in covering the targeted participants was also a challenge.

This was mainly because of the widespread and mobile nature of the sector and the participants. The researcher with the assistance of research assistants used questionnaires in data collection. Because of the nature, culture of the participants and their seemingly remoteness to any paperwork requiring well-thought out responses, there was a possibility that the researcher might have got reserved data responses. In extreme cases zero responses occurred. This placed limitations on the methodology the researcher used. The researcher tried to exploit his knowledge on ethics when he handed the questionnaires in order to overcome some of these challenges. The use of research assistants was also done in order to limit the impact that time constraints were going to have on the study. Also thorough explanations on the purpose and benefits of the study to the participants were done in order to get maximum cooperation from the participants. The fact that the research only covered one particular area of a single city might have also placed limitations on the study. Maybe different perceptions might have been obtained had a different setting been used. Sustainability of compliance behaviour within the informal sector is impacted by many factors. The study only focused on few factors, a thing that limited the study.

### **1.10 Structure of the study**

The study is structured as follows:

Chapter 1 gives the background to informal sector taxation in Zimbabwe and how this sector is slowly becoming a cornerstone to the country's economic fundamentals albeit tax compliance. It then identifies the research problem, state the objectives of the research as well as pose the research questions. The key claim the research seeks to prove is also stated in the chapter. The limitations that might hinder production of an effective study document and the importance of the study to various stakeholders are also key highlights in the chapter.

Chapter 2 contains a review of literature on informal sector tax compliance, definition, guiding principles, and theories. Literature on informal sector tax policies and administrative systems in general is also reviewed with the view to adopt a conceptual framework for analysing voluntary compliance within the sector. The chapter ends by

analysing the impact that policies and administrative systems even the macro environmental factors have on voluntary tax compliance by the informal sector.

Chapter 3 describes the philosophical assumptions underpinning this research, as well as introducing the research strategy and the empirical techniques applied to investigate the impact that any government policy and administrative systems of taxes might have on the sustainable voluntary compliance and tax remittance by the informal sector. This chapter defines the scope of the research design, research philosophy, and research paradigms, methodology, approaches, research strategies and instruments and link them to the study.

Chapter 4 carries out data analysis and presents the findings of the study. The hypotheses are also proved or disapproved. Chapter 5 concludes the study and proffers recommendations to the stakeholders. The chapter also presents the limitations of the study and identifies areas for future research.

### **1.11 Conclusion**

The chapter looked at the background to informal sector in as far as sustainable voluntary tax compliance by the informal sector is concerned. A brief analysis of the informal sector in Zimbabwe was also done. The problem to be addressed by the research was defined, the research objectives identified and the research questions outlined. The next chapter will review the related literature on informal sector taxation and how various identified factors influence sustainable voluntary tax compliance within the sector. A theoretical model which forms the hypotheses for the research will also be analysed in detail.

## CHAPTER 2: LITERATURE REVIEW

### 2.1 Introduction

The chapter reviews related literature by various scholars on tax compliance issues within the informal sector. The chapter identifies the variables which forms the study and defines them. The review highlights and discusses the major theories and models underpinning the study. The major theories that explains compliance issues within the sector such as the economic deterrent theory, fiscal exchange theory, and administrative theory among others have been reviewed and explored extensively in the chapter. The chapter ends by analysing the relationship that exist between policy and administrative initiatives and voluntary compliance behaviour, and ultimately detail the conceptual framework of the variables.

### 2.2 Literature search strategy

A lot of literature on tax compliance do exist. It is therefore important to filter pertinent literature relevant to this particular study. Literature for this study will revolve much around recent publications. This is because tax compliance is a topical subject which is evolving. Therefore to make the study relevant, use of recent publications will be very much inevitable. Besides the use of very recent publications, reports by various revenue authorities will play a key role in reviewing literature. Information from revenue authorities makes the study practical in nature which is a good characteristic of any research work. Reports from revenue authorities reveals practical information of what is actually taking place in different countries in as far as tax complying is concerned. Any other information relevant to the study from authoritative sources and from previously held researches will be incorporated in the study.

### 2.3 Definition of tax compliance

Tax compliance has been defined in various ways by many scholars. The scholars have brought in many different perspectives to the subject. An analysis of the definitions therefore becomes very pertinent. According to Kirchler (2012), tax compliance is taxpayers' willingness to pay their tax liability as per tax laws and regulations. In general,



complying with the tax laws and regulations means reporting of the correct tax bases, timely filing of tax returns and payment of the amount payable to concerned tax authority and correct determination of the tax burden.

On the other hand James and Alley (2014) indicated that the meaning of tax compliance concept can be given from different perspectives. However a more appealing perspective is the willingness of individual and other taxable entities to act in accordance with the spirit as well as the letter of tax law and administration without the application of enforcement activity. Other authors, Alm (2010) and Jackson and Milliron (2011) concurred on the definition of tax compliance as the reporting of all incomes and payments of all taxes by fulfilling the provisions of laws, regulations and court judgments. Another definition of tax compliance according to Singh, (2013) is a person's act of filing their tax returns, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority. An analysis of the various definitions of tax compliance clearly show that there is concurrence amongst various authors on what tax compliance is. However, an important concept which seems to be overlooked by some scholars in their definition of tax compliance, is the voluntary part of it and absence of enforceability. Tax compliance has to be voluntary. An interesting phenomenon which is the main theme of this study is the question whether compliance refers to voluntary or compulsory behaviour. If positive taxpayers' behaviour is as a result of threats or use of force by the authorities, this would not appear to be proper compliance even if 100 per cent of the tax were raised. Instead, it might be argued that successful tax administration requires taxpayers to comply willingly, without the need for enquiries, obtrusive investigations, reminders or the threat or application of legal or administrative sanctions. A more appropriate definition in this regard could therefore include the degree of compliance with tax law and administration, which can be achieved without the actual application of enforcement activity. A definition that would suffice then, becomes that of Andreoni, Erard and Feinstein (2015), who said voluntary compliance is the difference between the federal income taxes households or businesses actually owe, and what they report and pay voluntarily on a timely basis. This definition brings in the concept of tax paid without direct enforcement activity and tax paid as a result of it. This was supported by Kirchler (2007) who submitted that compliance is made possible by the trust and cooperation ensuring between tax authority and taxpayer and it is willingness of the taxpayer on his

own to comply with tax authority directives and regulations. This concept forms the backbone of the study.

## **2.4 Informal sector in Zimbabwe**

The informal sector according to Cross (2009) describes economic activity that takes place outside the formal norms of economic transactions established by the state and formal business practices but which is not clearly illegal in itself. Generally, the term applies to small or micro-businesses that are the result of individual or family self-employment. The sector in Zimbabwe is gradually growing, even overtaking the formal sector especially in its contribution to the national economy. Many people are employed in the sector. The sector has accommodated those in the transport, manufacturing, retailing, and service businesses among many other businesses. Because of the growth being experienced in this sector, collecting of taxes has become very inevitable and thus revenue authorities have to find ways to collect taxes from those who earn their income from the sector. The nature of the sector makes tax collection very difficult, thereby raising the need to have the potential taxpayers within the sector to voluntarily comply with their tax obligations. Failure by the revenue authority to have the taxpayers on their side can only lead to costly and cumbersome ways of collecting revenue from the sector. That obviously is not desirable especially for a tax system. This was concurred to by Kamunyor (2007) in OECD, 2010, who said that, administration costs involved in bringing the informal sector into the tax net can be justified on the basis of the revenues collected. Voluntary compliance issues will therefore be analysed in the context of this sector. Though the analysis can apply to other sectors, the major emphasis of the study will be on the informal sector.

### **2.4.1 Characteristics of the informal sector**

The informal sector which constitute a significant economic constituency face real, substantial and peculiar challenges that have prevented the sector from being regarded as real business entities. These challenges have been explained by the social capital theory which has been embedded in challenges such as inadequate collateral to secure loans; information opaqueness; low level technical and management skills; lack of professionalism; competition; inability to afford long term financing among others.

#### **2.4.1.1 Inadequate collateral to secure loans**

The informal sector businesses because of their nature do not have assets or have limited resources to act as collateral so that they can secure loans to fully establish. The perceptions that the financiers do have on the informal sector does not in either way do good to the sector in as far as acquiring finance is concerned. This was concurred to by (Apire 2003; Griffiths, 2003; UNEP, 2007), who asserted that inadequate collateral continues to cripple the financial needs of the informal sector. Because of this lack of access to finance from deposit taking institutions the sector end up borrowing from money lenders whose costs are too heavy for any business, worse for the informal sector whose cash flows are inconsistent and already heavily burdened.

#### **2.4.1.2 Low level technical and management skills**

Investing in human capital is the last thing that the informal sector businesses is prepared to consider. They do consider this as an unnecessary additional expense to the business. Instead and in most cases informal sector businesses are owner managed, whether the owner is skilled in the related business areas is not of importance. This has had dire consequences in the operation of the businesses in as far as acquisition of financial resources, exploring marketing opportunities and many other aspects of the business. In most cases it has stifled the growth of the businesses. These sentiments were postulated by Kasekende and Opondo, (2003), and Tusubira and Nabeta, (2013) who alluded to the fact that human capital provides management skills, entrepreneurial skills and knowledge of business opportunities. As such, SMEs lack good quality human capital which also means limited marketing and financial planning, lack of good business plans; poor business records and deficient corporate governance.

#### **2.4.1.3 Competition from large enterprises**

Although the informal sector is fast growing, it continues to face competition from the large businesses in the formal sector. Competition with the large businesses has always been in the area of acquiring financial resources and market opportunities. This was supported by Leo, (2011), who alluded to the fact that the informal sector face greater obstacles than large firms both in terms of accessing finance and the underlying cost of

credit. The non-symbiotic relationship between large firms and SMEs due to competition implies that the duo may not develop social networks from which to derive social capital. This continues to affect the ability of SMEs to access finance.

#### **2.4.1.4 Informational opaqueness**

The informal sector does not usually keep information that is essential for the running of a professional entity. The informal sector has always been susceptible to information asymmetries or information opaqueness and according to (Torre, Soledad, Peria & Schmukler, 2010) opaqueness makes it difficult for banks to ascertain if the businesses have the capacity to pay or willingness to pay if credit is extended to them. The lack of credit reference and unverifiable records and failure to maintain proper records makes them fail to obtain financing from lenders.

However it is important to note that the government realising the potential that lies within the sector is doing some efforts to curb these challenges through various initiatives, but those efforts are certainly inadequate.

### **2.5 Theories underpinning tax compliance behaviour**

Taxpayers' willingness to cooperate with the state and its institutions, in general, and their willingness to pay taxes, in particular, depend on a variety of variables. This has led to scholars coming up with theories which explain these variables. Tax compliance behaviour is premised on some theoretical foundations which include economic deterrence, socio-psychology, fiscal exchange, comparative treatment and political legitimacy assumptions. These theories seek to explain factors which promote voluntary compliance behaviour amongst taxpayers.

#### **2.5.1 The Fiscal Exchange Theory**

One theory to tax compliance behaviour is the fiscal exchange theory. The theory recognises the importance of government expenditure thus the tax revenue, as an important determinant of compliance behaviour. The way the government spend the collected revenues goes a long way in determining compliance in future. Fjeldstad, *et al.*,

(2012) acceded to this notion by claiming that, the model suggests that the presence of government expenditures may serve as a motivating factor for taxpayer compliance, especially when the taxpayers value the goods and services they perceive to be receiving from the government. Thus, a social contract do exist between the government and the taxpayers. According to the fiscal exchange theory, taxpayers are more willing to comply with their tax obligations when government is doing enough to oversee their welfare and ensure that the right conditions are ensured to keep them generating more income. Conversely, according to this model, taxpayers withdraw or become less compliant when they detect that the government, in its spending, is overlooking their interests. These sentiments were also encored by Spicer and Lundtstedt, (2000), Smith, (2002) and Palil, (2010) who asserted that, taxpayers are likely to adjust their terms of trade, by reducing compliance when they are dissatisfied with services provision from the government, or even when they dislike the way their taxes are spent. The fiscal exchange theory seems prevalent in developed countries and those with advanced democracies. It seems this is the explanation behind advanced economies in those countries. A satisfied taxpayer is more willing to comply with tax obligations even without enforcement. This perception go a long a way in explaining sustainability and voluntary compliance behaviour of the taxpayers which are the major facets of this study. This theory provides a reasonable basis for tax authorities to align their taxation policies to ensure they are able to make tax payers voluntarily comply with their obligations.

#### 2.5.2 Political Legitimacy Theory

Another theory which explains tax compliance behaviour especially in Africa is the Political Legitimacy Theory. According to Fjeldstad, *et al.* (2012) and Ali, *et al.*, (2013), political legitimacy refers to the belief or trust in the authorities, institutions, and social arrangements to be appropriate, just and work for the common good. The political set up of each and every country tends to impact greatly on all the facets of that particular nation especially the economics of that country. Thus great considerations should be taken in setting up political environments in countries. A conducive political environment enables citizens to have trust in the authorities, their policies and institutions. This was consented to by Tyler, (2009) and the OECD,( 2010) who said that, it is normal to expect that the more citizens trust their government and social institutions, the more likely they will voluntarily abide by the decisions and rules set by such government and institutions, and

this influences tax compliance decisions. Therefore, although the economic, administrative and behavioural approaches to taxation do apply greatly, and as was argued Lledo et al. (2014), focusing on them alone, devoid of the political context in which tax policy occurs, these approaches have fallen short in explaining the differences in revenue collection found among developing countries. Reality especially in African context has shown that political factors have not only contributed to differences between countries in terms of revenues collected but also continue to hamper some developing countries in their efforts to increase their revenues. Thus this theory should be used extensively by revenue authorities in modelling their taxation policies and management systems.

### 2.5.3 Comparative Treatment Theory

There are certain characteristics that every tax system should have or perceived to have. These include equity, fairness and justice. A tax system that operates devoid of these principles in most cases fails to accomplish its intended goal and results in most people evading. Taxes have to be raised not only in an administratively effective manner but also in a way that ensures fairness and equality. Equity of a tax system, aims to ascertain whether there are differences in the tax burden between taxpayers with different levels of earnings and whether individuals with similar incomes have similar tax burdens. These issues, according to Bird and Gendron, (2006) are central consideration of tax policy. This is mainly because people tend to comply with tax provisions if they perceive the tax processes to be fair. Feld and Frey,( 2006), acknowledged this fact by highlighting that, compliance rate is noted to increase when an individual perceives his tax burdens to be of about the same magnitude as that of comparable others just as evasion tend to increase when people become aware that their tax burdens are greater than those of others in the same group. This is especially true when one looks at the variability of incomes of those in the informal sector. Therefore, policy formulation for any tax system should seriously consider and place the principles of fairness and equity at the core as these seriously impact compliance behaviour of the taxpayers.

### 2.5.4 Social-psychology Theory/ The Tax Morale Theory

Tax compliance behaviour, according to the social-psychology theory is modelled around personal and social factors. Personal and social norms are individual convictions of things

one believes are right or wrong. Variables such as stigma, reputation, taxpayers' values, tax ethics, tax mentality, and tax morale, are some of the socio-psychological factors which help shape compliance behaviour of an individual. These are individual factors that motivates a person to comply with his obligations even when there are no enforcements. These factors have been used by many scholars to explain the high levels of compliance in the absence of regulatory enforcements. A lot of scholars have tended to support this notion and as Sour (2004) and Taylor (2001), contented, engagement in acts of evasion may induce feelings of anxiety, guilt or negative self-image in taxpayers and that fear of experiencing feelings of guilt, along with the risk of social stigmatization have greater deterrent effect than such external factors as the risk of detection and punishment. According to another group of authors on social-psychology theory (Lewis, 1982; Franzoni, 1999; OECD, 2010; Fjeldstad, *et al.*, 2012; Walsh, 2012; Ali, *et al.*, 2013), an individual is most likely to comply with tax requirements if he believes members of his reference groups also comply, just as he is also likely not to comply if he believes that members of his referent group do not comply. It therefore follows that socio-psychological factors play an important role in determining the compliance behaviour of an individual taxpayer. The general consensus amongst the varied scholars seem to point out that sustainable tax revenues from taxpayers can be obtained, if this theory is anything to go by. However, it seems pretty clear that this theory cannot be a standalone. Political legitimacy theories, economic deterrent factors and the fiscal exchange theories seem to play a part in shaping an individual's personal and social conviction. Therefore it is always important to analyse this theory not in isolation of the other theories to tax compliance.

#### 2.5.5 The Administrative Theory

The administrative theory to tax compliance refers to the processes leading to the realisation of tax revenues. It involves issues to do information impartation to the taxpayers, education on tax matters, governance, monitoring and evaluation among many other issues. The focus is on administrative efficiency and effectiveness in the collection of taxes. These are important tenants to any tax system and should be highly regarded if the overall goal of the tax system is to be realised. Addressing the administrative issues of a tax system go a long way in ensuring high compliance levels amongst the taxpayers. As

was alluded to by Bahl and Bird, (2008), administrative constraints are seen as the main limiting factor in the ability of governments to levy taxes, particularly direct taxes, on potential taxpayers. This theory is core in the administration and management of a tax system and it explains the differences in remittance levels between developing and developed countries. It introduces issues which are of paramount importance and if properly regarded, revenue authorities can be guaranteed higher compliance levels.

## **2.6 Importance of taxation and voluntary tax compliance**

The significant structural transformation that the Zimbabwean economy has gone through over the past decade, which has seen the informal sector taking over from the formal sector has called for the transformation of the economy towards informalisation and a paradigm shift in business activities as the existing and traditional business models can no longer continue to sustain the ever changing needs of the population. This has raised more concerns especially for the revenue authorities, which besides being faced with a dwindling formal tax base, are obliged to come up with strategies of bringing the informal sector into the tax net and have the sector as a guaranteed source to national budget despite the associated factors which makes it difficult to tax the informal sector. The importance of the informal sector in this regard, is premised on the potential revenue benefits, the prospects of accelerated growth and the potential for governance gains.

The growth potential within the informal sector has long term economic development benefits, as well as the growth of the taxation base. Although there is a feeling amongst some economic bodies that taxation of the informal sector might ultimately hinder growth, a growing body of research suggests that incorporating the informal sector into the tax net may, in fact, have significant benefits for growth.

Ensuring tax compliance within the informal sector also goes a long way in strengthening governance and accountability of the state especially to its citizenry. This notion was backed by Bird and Vaillancourt (1998) and Prichard (2010), who alluded to the fact that, tax payment may contribute to broader governance gains through three related channels. First, in order to encourage quasi-voluntary tax compliance, the state may be more responsive and accountable to groups that pay taxes and secondly, individuals may be



more likely to make demands for responsiveness and accountability if they are paying taxes, as it may foster a sense of ownership over government activities. This again proves why tax compliance within the informal sector should be emphasized.

In both developed and developing countries achieving high levels of voluntary tax compliance is of great concern. It is not easy to convince all taxpayers to comply with the tax laws. Hence, the amount of tax noncompliance according to Loo and McKerchar (2010) is still a challenge for all governments but it is more serious in developing countries. The lack of voluntary tax compliance has compelled revenue authorities to use costly and coercive methods for tax enforcement which in most cases impacts negatively on the overall tax goal. This then places more importance on the subject.

Being able to raise more domestic revenue and heavily relying on domestic sources rather than on foreign aid is gradually becoming a priority for many developing countries. This was concurred to by Drummond *et al.* (2012) who asserted to the fact that, raising more domestic revenue is a priority for most sub-Saharan African countries. In most cases foreign aid comes with conditions and is not a sustainable source to a country's revenue. In order to achieve this, domestic sources have to be reliable and sustainable. Tax compliance and in particular voluntary compliance from the growing informal sector comes in handy. This therefore proves the importance of the subject.

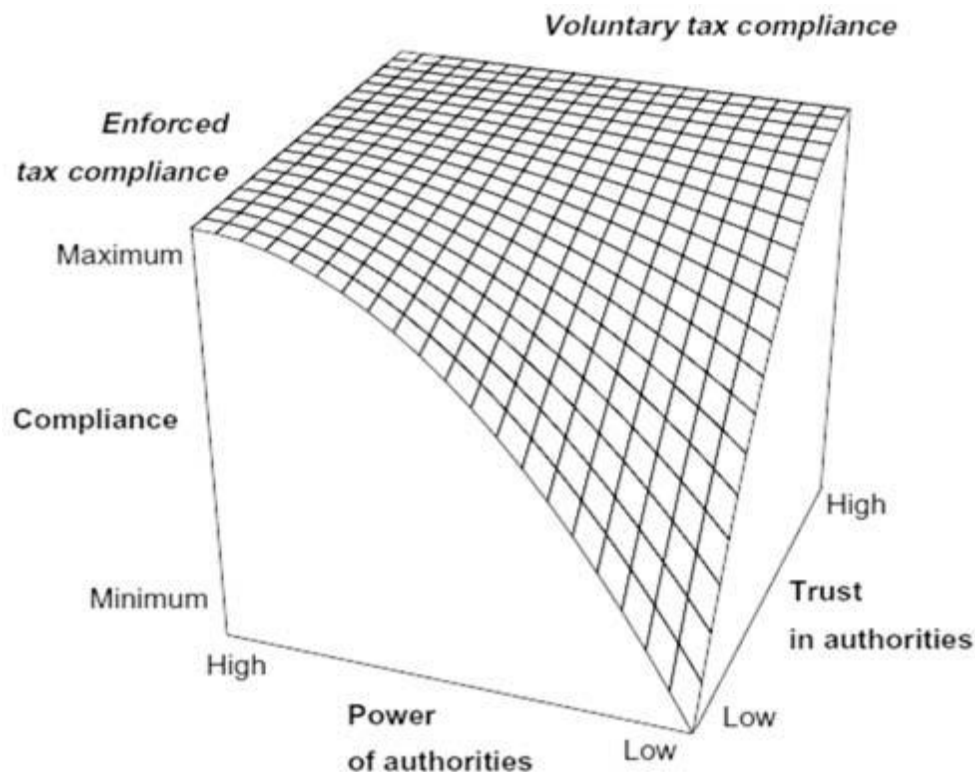
The whole purpose of a government in a country is to ensure livelihoods to its people. A government has to always be on the side of its people. This it does by ensuring essential public services. To be able to do this sustainable mechanisms to ensure availability of resources have to be in place. One way governments have used to achieve this has been establishing strong tax modalities. The informal sector, to this, has been earmarked to contribute a total of 9% to national revenue. This therefore means that there is no real alternative to taxation to pay for the high levels of public expenditure that modern economies demand. However, the domestic tax bases in most African countries according to an (IMF 2011) report are undermined by widespread tax avoidance and evasion. Voluntary tax compliance in this regard then becomes of paramount importance. Achieving higher compliance levels calls for some understanding of the factors underlying the individual taxpayer's decision whether to pay or evade taxes.

According to James and Alley (2009), taxation does not exist in some sort of economic, social and political vacuum. Taxation is a means not an end. It is therefore an advantage if compliance can be achieved willingly and on a genuinely voluntary basis. It detracts from the whole purpose of raising tax revenue for the public benefit if compliance can only be achieved under the threat of severe penalties and enforcement action. If the amount of suffering involved in raising the revenue is greater than the benefits from the associated public spending then something is clearly wrong. This therefore proves the importance of ensuring an environment which supports not only compliance behaviour but voluntary compliance.

## **2.7 Models to tax compliance**

A number of models to informal sector tax compliance have been formulated and used in different countries as a way of explaining and trying to bring the informal sector into the tax bracket. These include the slippery slope model, the Braithwaite Compliance Model, the Penalty Loading Model and the Allingham and Sandmo (A-S) Model.

### 2.7.1 The Slippery Slope Model



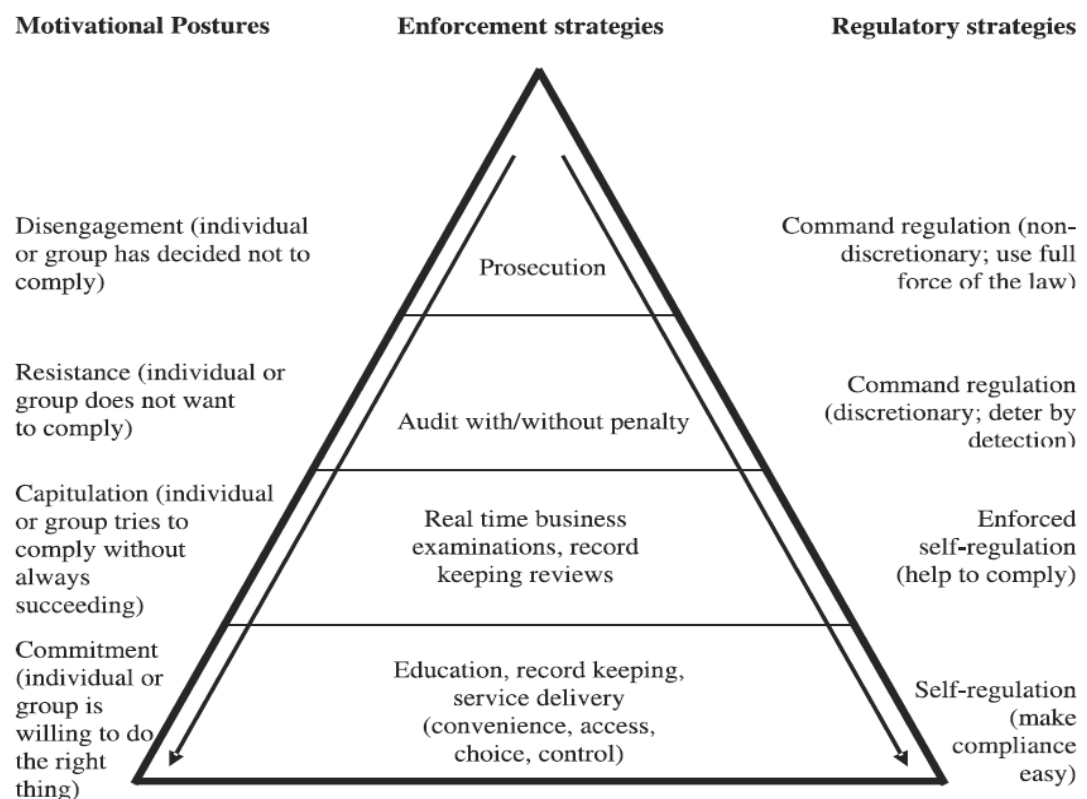
Source: Kirchler, Hoelzl and Wahl, 2008

Figure 1: The Slippery Slope Model

This model to tax compliance was modelled by Kirchler, Hoelzl and Wahl (2008) and is called the slippery slope model. It explains the behavioural side to tax compliance and is premised on socio- psychological determinants to tax compliance. According to this framework behavioural tenants that is, the trust that the general populace has in those in authority and how those in authority exercise their power are the main dimensions shaping this slippery slope model. According to Kirchler, Hoelzl and Wahl, (2008), the general opinion of individuals and social groups that the tax authorities are benevolent and work beneficially for the common good and taxpayers' perception of the potential of tax officers to detect illegal tax evasion and to punish tax evasion are what shapes trust and their power. The two dimensions to this model that is trust and power results in compliance tendencies by the taxpayers. However it is important to consider that whilst trust in authorities results in voluntary tax compliance the exercise of power by the authorities results in enforced tax compliance. When the population has low trust levels in those in authority and when those in authority exercise low levels of power, taxpayers tend to evade paying taxes whilst the opposite tend to result in high compliance levels. It therefore is important for those in authority of tax administration to be cognisant and

consider trust and power issues in policy crafting so as to realise sustainable compliance behaviour. The major emphasis of this study is the impact of any initiative on voluntary compliance. It is this basis that tax authorities, according to this model, have to consider whether emphasizing on gaining trust from the taxpayers or use power to achieve sustainable compliance levels. Which of these two ways seem sustainable? This is the question that revenue authorities should strive to answer and also what this study seeks to answer.

## 2.7.2 The Braithwaite Compliance Model/ Australian Taxation Office Compliance Model



**Source:** Braithwaite (2003b, p. 3) and James, Hasseldine, Hite, and Toumi (2003).

Figure 2: The Braithwaite Compliance Model

The drivers and attitudes motivating non-compliant behaviour and determining a response mix can well be shown through a compliance model. The Braithwaite Compliance Model was initiated in 2003 and used by Australian Taxation Office. Many agencies have also adopted this model and its application has been widespread even up to this day. According to an international monetary report by Barrie Russell (2010), on Revenue Administration, the model provides a structured way to better understand what motivates people to comply, or not to comply. It recognizes that taxpayers are not a homogenous group, and that their circumstances can change over time. Importantly, it provides revenue agencies with insights into factors that influence different compliance behaviours, and assists them in deciding what interventions to make. According to the compliance model, a taxpayer's compliance behaviour is influenced by a wide range of factors. These include industry, business, economic, psychological, social and political tenants among many other factors. The model then describes the motivational postures that guide tax behaviour and the corresponding compliance strategy that best responds to each particular attitude. This model identifies taxpayers as being committed to oblige to

tax obligations, willing to pay but do not succeed always, resistant and totally disengaged from tax issues. These individuals are supposed to be subjected to the respective compliance strategies which according to the model can be enforcement and regulatory. According to The Australian Taxation Office who concurred with Braithwaite, (2003b) compliance model, for four motivational postures the model offers enforcement strategies ranging from prosecution to education and service delivery, and additionally suggests adequate regulatory strategies ranging from command-regulation to self-regulation. For example, tax evasion conducted in a motivational posture of commitment should be answered with education, record-keeping, and service. The idea is that the tax evasion was an unintentional error, and self-regulation would be an efficient strategy. On the other extreme, tax evasion conducted in a motivational posture of disengagement should be answered with prosecution, and with a strategy of command regulation.

The model seem a sustainable means to address compliance issues. It is very practical in nature as it thrives to address the actual causes of noncompliance rather than the symptoms. The model advocates a deeper understanding of motivation, circumstances and characteristics so that enforcement and other actions can be tailored to promote better compliance. With the right responses and interventions revenue agencies can influence taxpayer behaviour in a positive way. The ultimate aim of revenue authorities, as this model show, should be to influence as many taxpayers as possible to move down the pyramid into the willing category, thus voluntary compliance. The model goes a long way in addressing the voluntary aspect of tax compliance which is the ultimate aim of this study.

### 2.7.3 The Penalty Loading Model

This model to tax compliance was introduced in Zimbabwe by the finance ministry in the 2019 budget and was premised on the arbitrary and inconsistent application of the discretionary authority by Zimra in the imposition and remission of penalties chargeable for failure to comply with the tax legislation. This had led to huge tax debts attributable to penalties. This model informs taxpayers on the level of penalties used. This compels taxpayers to self-regulate themselves on remittance behaviour and exclude officials whom the public do not trust. This in it goes a long way in promoting positive compliance behaviour from the informal sector participants.

#### 2.7.4 The Allingham and Sandmo (A-S) Model

This is one model which has been used by some scholars to explain why taxpayers behave the way they do in as far as complying with tax regulations is concerned. This model was advanced by Allingham and Sandmo in 1972 and still suffices even up to this very day. The model is premised on the fact that the government discourages tax evasion through the use of sanctions. According to this model a taxpayer's behaviour is influenced by factors such as, tax rate and penalties for fraud and probability of detection. A tax payer being regarded as a rational person will decide to violate the fiscal laws and evade his or her tax obligations when he or she perceives that the cost of evading tax is too low, believing if he or she does that he or she is unlikely to be detected or audited. According to Fjeldstad, Schulz-Herzenberg and Sjørusen, (2012), the implication of this assumption is that when there are low audit probabilities and low penalties, the tendency for evasion will be higher, while if there is a high tendency for detection and penalties are severe, fewer people will evade taxes. This model to tax compliance has been the most prominently used in explaining taxpayers' compliance behaviour. However, it must be noted that penalties and audits have been extensively used as ways of influencing taxpayers to comply with their tax obligations but still the problem of non-compliance is still very topical in many developing countries. This fact was concurred to by Rethi (2012) and Slemrod, (2007) who observed that in spite of the existence and use of audits and penalties which are the key components of the deterrence model, tax evasion has remained, and continuously posed significant threats to countries' economies, through loss of revenue. The failure by developing countries to realise increased revenues despite existence of audits and penalties has brought into question the issue of sustainability and voluntary compliance which is the main theme of this study. The model does not explain the subject of sustainability and voluntary compliance, whether a regulatory framework positively impacts on sustainable voluntary behaviour, which is going to be the major thrust of this study. The model also seems to restrict explanation to taxpayers' behaviour to regulations and fails to regard the role played by some behavioural and economic factors. This, to an extent negates this theory.

## **2.8 Variables impacting on voluntary compliance**

Voluntary tax compliance is impacted by a lot of factors

### **2.8.1 Tax Rate**

The high levels of tax rates and their varied nature especially in developing countries makes the participants in the informal sector to be less-compliant. These high tax rates prevents them from complying as the burden becomes too heavy on their earnings. On the other hand some pioneering authors argue that the increment in tax rates would automatically increase compliance to taxes. The use of the presumptive model to taxing the informal sector is not dependant on the actual earnings but on assumed earnings which in most cases will not be accurate. This fact was alluded to by Osambo, (2009), who claimed that, the high levels of taxation of SMEs in Africa, needed attention targeted at addressing the overall implications of taxation on SMEs. Derwent (2000) in studying taxation behaviour in five different countries (USA, Gambia, Nigeria, South Africa and Kenya), concluded that increased tax burden is a major threat to compliance behaviour within the informal sector. Based on the above review, there exists different views on how and what impact tax rates have on compliance behaviour.

#### **2.8.1.1 Presumptive Tax**

The growth of the informal sector in many developing countries has called for its greater participation in national economic activities. This in most cases can be in the form of tax contributions to the national fiscus. This has led to the introduction of special tax regime for small enterprises that are not registered under the standard tax system. Such taxes are usually targeted at the self-employed and small to medium-sized businesses in the informal or unregistered sector, and commonly take the form of presumptive taxes. According to Loeprick, (2009) this tax is simplified taxes levied on presumed rather than actual income, and can be based on turnover, indicators of income capacity or they can be standard lump-sum assessments paid by all those in a particular activity or occupation. This was also concurred to by Ayyagari et al (2005), who said that presumptive tax can be levied based on the internal tenants of a business such as, the nature of the business and level of sales, employees, assets and location; methods that impute a return on business assets; methods that take into account a gross receipts or turnover; methods that estimate the taxpayer's income on the basis of external indicators such as personal



expenditure and or wealth. However, Alm, Martinez-Vazquez (2003), on the other hand was of the opinion that presumptive tax arises when self-assessments cannot be relied upon and, administrative assessments are preferred instead. The perspectives that these authors hold on presumptive taxation, however seem to concur to the fact that this is an assumed or tax liability ascertained through indirect factors. This approach to taxation has also been used in Zimbabwe since 2006 and has been applied to most informal sector businesses such as, hairdressing salons, restaurants, bottle stores, taxicabs and omnibus operators, informal traders, small-scale miners, cross-border traders and cottage industry operators (Zimra 2011). Although the presumptive taxation system seemed a progressive method of incorporating the informal sector into the tax net, there are a lot of factors that militate against its intended objective thereby making it an ineffective tool for encouraging sustainable voluntary compliance within the sector. The policy besides obviously not being accurate in coming up with figures because of its very nature, equity and fairness principles of taxing individuals and businesses are obviously compromised. The policy also comes short in coming up with the said taxation bases and the procedures of estimating the relevant parameters is difficult. This was supported by Dube and Casale (2017) who asserted that some of the challenges associated with presumptive tax regime lie in determining the procedure for estimating the relevant parameters to implement. Besides the above noted challenges, presumptive tax model by its very nature brings with it administration challenges. The above criticism of the taxation policy compromises its acceptability and voluntary compliance behaviour by the potential taxpayers.

#### **2.8.1.2 Intermediate Money Transfer Tax Policy**

This is one policy measure that has recently been enunciated by the central government as a way of raising revenue to supplement the national budget. It is taxed electronically for every transaction above the given threshold. The growth of the informal sector, and it not being fully incorporated into the tax net, despite its potential to contribute to the national fiscus was the motivating factor behind this policy promulgation. Most transaction especially those in the informal sector take place electronically. In order to realise the full potential that this sector has in as far tax revenue is concerned, this measure was seen as a necessity. This policy measure has received widespread criticism from majority of the people because it diminishes peoples' disposal incomes. In a Newsday article (08/10/19), "Scrap the 2% tax", by Chimunzveze, captains of industry unequivocally called for the

scrapping of the intermediate tax as its effects were taking a toll on businesses and the general public. Whilst this measure has gone a long way in boosting the government coffers, enabling it to subsidise the transport and agriculture sector for instance, it is rather a compulsory measure, rather than a voluntary mechanism to tax compliance. Its continued resentment by the public, compounded by court appeals against its implementation compromises its acceptability and sustainability as a source to national revenue.

### 2.8.2 Tax Compliance Cost

Compliance costs are the additional costs in terms of time, effort and financial expense. It also includes the cost of tax planning and paperwork. In most countries these costs tend to be higher than the amount of tax to be paid. This makes the taxpayers to then shun the whole process resulting in non-compliance. Ojeka, (2012) supported this notion by claiming that the high costs of meeting tax obligations can lead to tax evasion, avoidance and even fraud. This will ultimately lead to stagnation of investment and decreased competitiveness of the country in terms of taxation attractiveness. For example, the Internal Revenue Service's estimates Americans spend 6.6 billion hours per year filling out tax forms, including 1.6 billion hours on the 1040 form alone. In a study carried out on tax compliance and simplifications (OECD, 2014), it was established that compliance costs tend to increase with the number of taxes that an entrepreneur has to pay. The IMF report of (2014) also highlighted that high compliance cost convinces taxpayers to evade from paying. Literature therefore seems to be concurring on the effect of compliance costs on the general compliance behaviour of the potential taxpayers.

### 2.8.3 Fiscal Exchange

This is one of the major facet to tax administration and management that has determined taxpayers' compliance behaviour. Fiscal exchange refers to the benefits that the taxpayers get from the tax revenues. Quasi voluntary tax payment is likely to be higher if taxpayers feel that they will get value for money for the taxes that they are paying. If the government provide the basic goods and services that the ordinary taxpayers want, this motivate compliance levels. The provision of services like infrastructure, water and sanitation services, maintaining roads and bridges, and provision of reliable supply of electricity and handling of crime, conflict and corruption go a long way in motivating the

informal sector to be compliant. These are the very basic services that they need. According to Fjeldstad and Heggstad, (2012), Ali, Fjeldstad, and Sjørnsen, (2013) and OECD (2013), public perceptions of the fairness of the tax system and the belief that taxes will be well spent are highlighted in many studies as being important to tax morale and voluntary compliance. Tax authorities and the central government in this regard should prioritise accountable and beneficial use of taxpayers' money if high and sustainable compliance levels are to be realised from the sector.

#### 2.8.4 Fairness, Equity and Certainty of a Tax system

Each and every tax system should strive to satisfy the basic tenants expected of it. These include the principles of fairness, equity and certainty. A tax system that is short of these cannot in most cases achieve its intended goals. A tax system that do not satisfy these principles is evaded by many of the potential taxpayers. Many authors have concurred to this notion with Etzioni (2010), in his study on the subject, found out that if taxpaying people feel that taxes are unfairly levied on them, they tend to withdraw. The finding of the study by Bradley (1994) also shows that the probability of tax evasion will increase, when taxpayers consider the tax system is unfair. Due and Friedlaend (2005) also recommended that tax payers will not pay taxes if they feel the current tax system treat them unfairly and allow other tax payers to escape a tax burden. From the above sentiments by various authors, it is therefore important for any tax system to strive to satisfy the basic tenants of fairness, equity and certainty. Once these are met potential taxpayers are likely to voluntarily comply.

#### 2.8.5 Enforcements of tax regulations/Penalties

Tax authorities have put in place penalties as one measure to ensure compliance by the informal sector. Penalties in most cases are in the form of additional payments above the assessed figures to the authorities. They might also result in the censoring of business operations or imprisonment of the owner. Many countries worldwide in a way have adopted the penalty philosophy as one measure to compel compliance. However the degree of application have differed in developing and developed countries. Authors have however differed on the effectiveness of this measure in enticing voluntary compliance. Lederman (2010) argues that penalizing tax evaders results in potential taxpayers doing

the right thing. Park and Hyun (2013) in their study also found that penalizing taxpayers when caught encouraged taxpayers to report and file the true income they earn. However, the Internal Revenue Service of the United States in their (2000) report argued that, the rationale of taxing citizens is to allow benefits to accrue to them and not to punish them. In this regard, sanctions must exist only as a way to support tax administration. However, a lot of consideration as to their extent of application and the enthusiasm with which they should be enforced should be made. This therefore shows that there still exist different schools of thought in as far as use of penalties as a measure to compel compliance is concerned.

#### 2.8.6 Tax Information and or Education

The long lasting goal of giving out information or educating is to influence behaviour or change perception and attitudes. This has proved to be a very important tenant in tax issues especially for those in the informal sector. By the very nature of the sector, lack of information is very inevitable. That has been regarded as one cause to low levels of tax compliance within the sector. Standard models assume that tax payers are fully informed of all the aspects that cover the tax reporting processes. However, according to Andreoni J. Errard, (2008), this is a strong assumption and not the case. Tax research has shown that the degree of information is an important factor on the behaviour of tax payers and how it influences tax compliance. Less educated tax payers are more prone to failure to abide to tax obligations than those with full tax information. Taxpayers are more sceptical to issues they do not have full information on. This was supported by Eriksen and Fallan (2010) who argued that a taxpayer should be given better tax knowledge to improve perceptions. Taxpayer education according to Kassipillai, (2003), will provide the necessary tax knowledge to comply with the tax matters and change the perceptions and attitudes towards tax-compliance by creating more positive attitudes. The importance of tax education and information to voluntary compliance levels from the analysis above, cannot be overemphasized.

In conclusion, one can claim that any intention to align the tax system and ensure sustainability of compliance behaviour is heavily dependent on how the system is administered and managed. A tax administration and management system that is riddled with inefficiencies and compromises the above stated tenants because of whatever reason will undermine even the best tax policies.

## 2.9 Empirical review

Since the subject of tax compliance within the informal sector is very topical worldwide, there has been a significant number of researches that have been conducted on the subject in different countries. Different tax compliance frameworks have been formulated in the different researches. The main emphasis in all these researches, was identifying the various and major factors which influence compliance behaviour of the potential taxpayers. The major emphasis of this research is to determine the impact that each variable factor has on voluntary compliance of taxpayers. This therefore means some of the findings from previously held researches can be very useful to this study.

### 2.9.1 Empirical evidence: Case from Ghana

A related study on tax compliance by the informal sector was conducted in Ghana by OppongA and Abruquah L (2016). The research titled, “Informal Sector Tax Compliance Issues and the Causality Nexus between Taxation and Economic Growth: Empirical Evidence from Ghana”, sought to investigate the determinants of the informal sector compliance issues and the causality nexus between tax evasion and Gross Domestic Product (GDP). In conducting the research a mixed approach methodology that is, the abductive approach was adopted, the reasoning being that precision, objectivity and result accuracy, logical reasoning was being sought from the respondents’ responses. The research identified psychological tenants that is attitudes, subjective norms, perceived behavioural control and intention as the independent variable with compliance as the dependant variable. The research was conducted using a sample of 600 petty traders and medium scale owners from the ten regions of Ghana with 60 respondents from each region. Respondents included market women, beauticians, artisans, sole proprietorship businesses. Taped interviews and field notes were the main qualitative data collecting instruments with questionnaires being the quantitative data collecting instrument. The results from the study were conclusive that the identified psychological tenants all have a positive impact on compliance behaviour. Although the research is similar to this current study in that both studies are focusing on compliance behaviour within the informal sector and admitting to the fact that there are causal factors to compliance behaviour, they do differ in that the research in Ghana restricted itself to psychological tenants only, as

the major determinants of compliance behaviour within the sector. It is important at this point to highlight that there are more causal factors to compliance behaviour which this study will try to explore. Also the voluntary aspect to compliance was not adequately emphasized in the Ghana research, a fact that this research will try to explore in greater detail. Besides the noted factors, the methodological differences in the studies and the different levels of economic development within the two countries are factors that the researcher will consider. The noted differences in the studies will in a way signify the research gap that this research will try to fill.

#### 2.9.2 Empirical evidence: Zimbabwean case

Another related study on informal sector taxation was carried out by Nyamazana E, Sikwila, Karedza G and Mungadza A(2014). The study entitled, “Tax Collection Constraints, and Tax Burden on the Urban Informal Sector Enterprises: Evidence from Bulawayo, Zimbabwe”, sought to establish the difficulties faced by the revenue authority in collecting taxes from the informal sector and the reasons behind this. A mixed approach methodology was adopted for the study, with questionnaires and face to face unstructured interviews being the main data collecting instruments. Although the mixed methodology was basically used, the study tended to be biased towards the qualitative approach as it sought to establish or develop a theory on why informal sector participants tend to be sceptical about tax remitting. Both open and closed questions were employed in an attempt to obtain in-depth information regarding tax invasion and ability to pay by businesses in the informal sector in Bulawayo urban area. The researchers used a combination of purposive sampling and non-participant observation to choose respondents to be interviewed from the urban informal sector in Bulawayo. This approach was justified in that by closely observing informants, in-depth information and data was obtained particularly on daily, monthly and annual sales and profits that epitomise incomes of the informal sector. A sample of 250 respondents was chosen from a cross-section of sectors that included: textiles, metal and metal products, chemicals, foot wear, furniture, motor, electrical, mining and agricultural products, among others. The results of the study showed that a number of facets were attributable to non-compliance behaviour of the informal sector. These included size, widespread nature and number of the informal sector, resource constraints, political interference, corruption tendencies, notions of fairness and tax educational gap. The study concluded that strengthening of institutional

arrangements was paramount if tax collection from the informal sector was to improve. The methodological differences between the two studies is the main point of difference. Whilst the previously held research tried to develop a theory on why tax is difficult to collect within the informal sector, the current research is seeking to test the theory. However it is important to note that both studies are from a similar setting and any similar findings can only but buttress the findings of each of the study.

### 2.9.3 Empirical evidence: Ethiopian case

Another study on informal sector taxation was conducted in Ethiopia by Niway Ayalew Adimasu and Wondwossen Jerene Daare in 2017. The study titled, “Tax awareness and perception of taxpayers and their voluntary tax compliance decision: Evidence from individual tax payers in SNNPR, Ethiopia”, sought to examine tax awareness and perception of tax payers and their influence on voluntary tax compliance decision. The study adopted a quantitative methodology approach with its design taking a descriptive nature. It identified tax awareness and perception of the tax payers as the variables influencing voluntary compliance. A sample of 377 category “A” taxpayers was used for the study with questionnaires and reports and manuals of Ethiopian Revenue and Customs Authority (ERCA) branches being the main sources of primary and secondary data respectively. The results of the study were conclusive to the fact that, tax awareness was the major problem for voluntary tax compliance attitude. The study also found out that high tax rates and the unfairness of the tax system negatively influences their compliance behaviour. Besides, the study also showed that tax payer’s positive perception towards the tax system and government spending also encourages voluntarily tax compliance. The study concurred with this current study in its emphasis of voluntary compliance principle. However, besides restricting itself to only a few influencing variables, the descriptive approach the study took is a major point of difference with the current study. The current study seeks to explain the impact of the influencing variables which are obviously more than the ones identified in the previous study. The explanatory design that this study adopts also is a major point of departure from the previous study. This study also sampled from category “A” taxpayers which might be in different settings or circumstances with the informal sector taxpayers which this current study is focusing on. These differences totalled creates vacuum in this previous study which this current study seeks to fill.

## **2.10 Literature synthesis and research gap**

The definition of tax compliance has tended to take different perspectives with most literature regarding it as simply meeting tax obligations. How tax obligations are met has not been explored in greater detail. However, it is important to note that tax obligations are met through enforced compulsory means or voluntary compliance. Tax compliance should be a voluntary act. This is premised on the fact that tax compliance should not be cumbersome and costly to the authorities as this will defeat the whole purpose of a taxation system. Therefore a definition of tax compliance which encompasses the voluntary aspect should suffice.

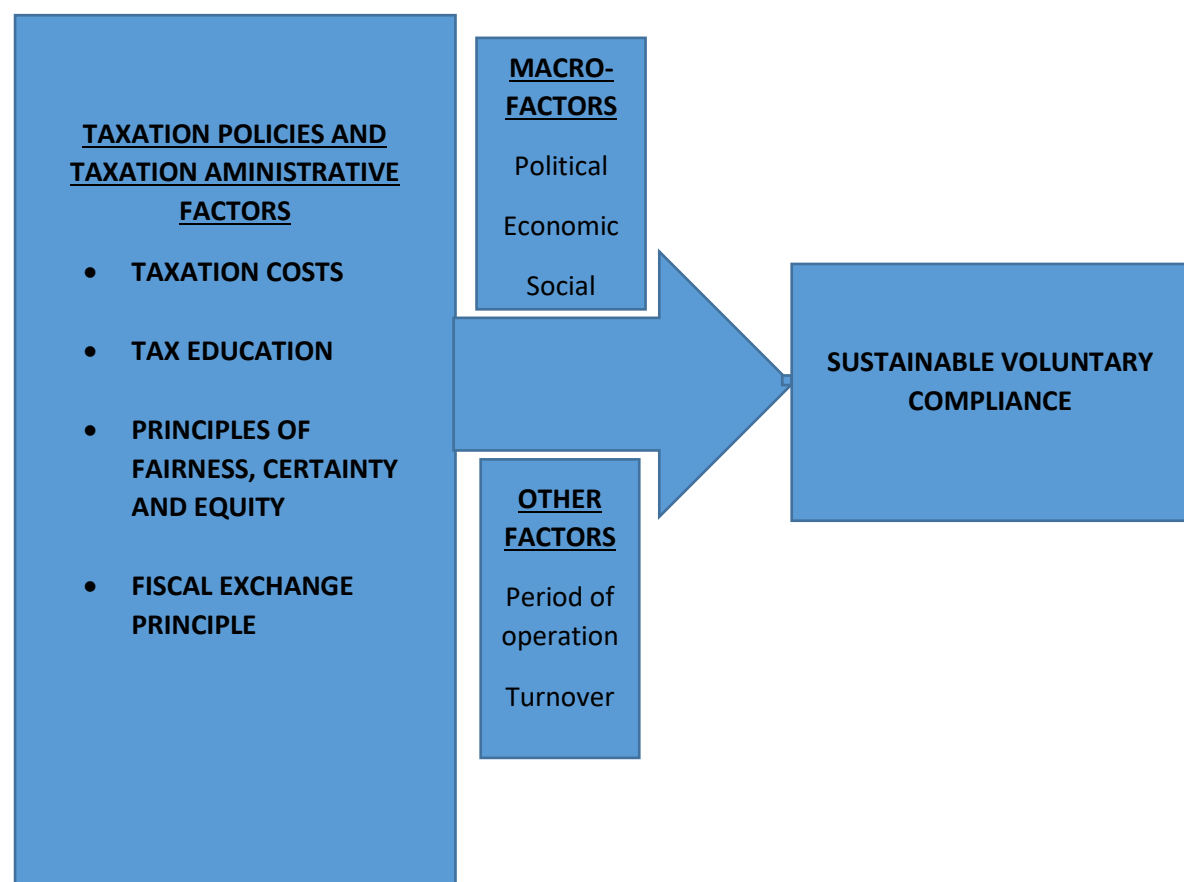
This study will try to explore how any variable factor tends to impact on voluntary compliance. A lot of work and literature on the subject of tax has been carried out extensively. However, this has mostly concentrated on factors that influence compliance, problems revenue authorities face in collecting tax and ways or policies that can be implemented to ensure high compliance levels of tax remittance. There has been concurrence amongst many studies on the factors that affect tax compliance within the sector. Taxation associated costs, information availability have in most circles been identified as major factors affecting tax compliance. Psychological factors have had some contradictions amongst authors as to their contribution to tax compliance. However, and in all these studies, no major emphasis has been put on the impact of any policy measure or initiative on sustainable voluntary compliance. Major emphasis of literature and previous research work on tax compliance has tended to concentrate on general compliance. Whether the compliance is compulsorily enforced or voluntary has not been a major issue. However, sustainability of tax revenues especially in today's financially volatile environment, and where indigenous sources to national revenues seem more sustainable, is of paramount importance. However, for a tax system to be sustainable it is not supposed to be cumbersome or costly to the authorities. Hence the importance of sustainable voluntary compliance which this study will try to explore and contribute to literature. This, the researcher believes, will eliminate the gap that has always existed in most revenue authorities especially in developing countries.



## 2.11 The Conceptual Framework

An analysis of existing literature and research works on tax compliance and the motive to close the gap that exist, necessitated the adoption and development of a conceptual framework that tries to eliminate the lack of sustainability in the existing tax regimes or existing models. A model that recognises that tax policy measures and management and administration thereof in a favourable macro environment ensures establishment of viable and established economic entities that voluntarily comply to tax obligations. If these constituencies are duly regarded especially by the authorities, sustainable voluntary compliance is guaranteed. It is important to recognise that these constituencies are supposed to work in liaison if the tax goal is to be achieved. Tax policies should not be implemented in isolation of how it is administered and the macro environment it exist in.

**Independent Variables      Control Variables      Dependent Variable**



**Conceptual Framework**

*Figure 3: Conceptual Framework*

Policies and administrative systems that impact on sustainable voluntary compliance behaviour of the sector have been identified. These include the tax costs, tax education, a fair, equal and certain tax system and ensuring fiscal exchange amongst the stakeholders. These factors all seemingly tend to have a positive relationship with sustainable voluntary compliance behaviour of those in the informal sector. The impact of the control variables has not been included in the model and will be considered for future researches.

## **2.12 Conclusion**

The chapter focused and reviewed the related literature on tax voluntary compliance including the definition and theories. It also analysed the literature on informal sector taxation in Zimbabwe. The Chapter went further to review literature on the relationship between any policy or administrative measure and sustainable voluntary compliance by the participants in the sector. A conceptual framework was thus developed to analyse the impact of the independent variables on sustainable voluntary tax compliance by the informal sector.

The next chapter will focus on the study methodology.

## CHAPTER 3: STUDY METHODOLOGY

### 3.1 Introduction

The previous chapter focused on literature review which formed the basis and informed the study framework and empirical study. The review explored tax compliance issues in general and specifically sustainable voluntary tax compliance within the informal sector. This chapter will outline the methodology for the study including the various facets such as the research philosophy, research paradigm, the design and approach that the research will adopt. How the sample for the study was arrived at will also be outlined including the research strategies that were used in data collection. The chapter will ultimately highlight the credibility and ethical considerations that were of paramount importance to the whole study.

### 3.2 Recap of Research Objectives, Questions and Hypotheses

The research methodology was mainly informed by these tenants to the research.

#### **Main Research Objective**

The overall research goal of the study was to investigate the impact that taxation policies and administration have on sustainable voluntary tax compliance behaviour of the informal sector.

#### **Main Research Question**

The main question that the research sought to answer was, what impact do taxation policies and administration have on sustainable voluntary compliance behaviour of the informal sector?

#### **Main Research Hypothesis**

Taxation policies and tax administrative factors impact on sustainable compliance behaviour of those in the informal sector.

### **3.3 Research Philosophy**

Researches are normally premised on different philosophical perspectives, that is, the ontological perspective, epistemological perspective and the mixed axiological perspective. The philosophical base that underpinned the study was quantitative in nature. The study was guided by the ontological philosophical perspective and the epistemological philosophical perspective. Since the respondents to the study obviously had one truth to how policies and administrative systems impact on sustainable voluntary compliance and remittance of taxes within the sector, the study, ontologically, adopted the objective perspective. Besides being ontologically objective in the definition of the problem, the researcher tried to maintain distance from the respondents in the collection of his data and instead relied on the use of questionnaires. The researcher appeared a separate object and autonomous expert who acts on the respondent. This therefore meant that the study, epistemologically was objective. The researcher assumed the role of an analyst making detached interpretations about data collected in a value free manner using questionnaires.

### **3.4 Research Design**

A research design according to Bryman, (1998), is a series of advance decisions that taken together comprise a model of how the investigation will be conducted. McMillan and Schumacher (1997) on the other hand, added that research design is used to obtain evidence to answer possible research questions. It can be considered a blueprint to guide data collection, data processing and information transmission. Within each major methodology are various designs that provide a framework or philosophy for the study. This study adopted the sequential explanatory research design as it aimed to develop a general understanding of the research problem through quantitative data, and then to elaborate on the quantitative results and explain these results. According to Bryman & Bell, (2007) surveys and interviews are the two commonly used data collection methods in social sciences. The researcher, adopted the questionnaire as the main data collection instrument for the study as it seemed compatible with the study. The fact that questionnaires provides anonymity to respondents, they enable collection of data which is not reserved and respondents tend to give honest answers, as the questionnaire exempts

them from any social obligation. Participants and owners of businesses in the manufacturing industries were targeted by the survey. By targeting these people, this study was able to gather the different perceptions people hold thereby coming up with more reliable data. The use of multiple informants as was suggested by Cooper (2003), enhances the validity and reliability of a study. Responses from the surveys were quantitatively analysed. The data collected from the questionnaires provided breadth and depth in terms of understanding the behaviour of the informal sector in as far as voluntary tax compliance is concerned.

### **3.5 Research Paradigm**

Because of the quantitative nature of the study, a positivist paradigm to research was adopted. This was because of the existence of variables which their relationship was to be established. Taxation policies and tax administrative factors were the independent variables whilst sustainable voluntary compliance made up the dependant variable. The relationship that exist between these variables is what the study sought to establish and quantify. Besides, factual and objective opinions of the respondents played a key role in the study. Therefore a positivist paradigm to the study was adopted. The positivist paradigm to a research study seeks to quantify and explain relationships between the existing variables.

### **3.6 Research Approach**

The approach that the researcher adopted for this study was the deductive approach. This approach sought to test the relationship that exist between policy measures and administrative factors, and sustainable voluntary compliance and remittance behaviour of the sector and come up with a testable claim from the findings. According to this approach a hypothesis on which data is later collected to form the empirical basis to back the hypothesis was done. This allowed generalisations and conclusions to be made. The creation of empirical evidence which is an outstanding feature in most quantitative researches made this approach more suitable for this particular study. Whilst deductive approach to research is advantageous in that it stresses numerical analysis and objectivity,

reliability and replication of findings, the approach falls short in circumstances where social phenomena may not be properly measured and quantified.

### **3.7 Research Strategies**

The study sought to establish the impact that any tax policy measure and administrative factors have on sustainable voluntary compliance and remittance of tax by the informal sector. Though there are a number of strategies that can be used to collect data for the study, among them case studies, experiments and surveys, surveys seemed most suitable and the researcher used these extensively to collect data for this particular study. Surveys in the form of questionnaires were used. This strategy allowed availability of data which could be used to test a hypothesis and form empirical evidence which are important precepts of the study under review. The strategy also provides a systematic and easier way of collecting, analysing and interpreting data. This strategy augured well with the ontological and epistemological philosophical assumptions that were adopted for this study. The use of advanced statistical techniques that the researcher extensively used in data analysis for the study combated very well with the aforesaid strategy.

### **3.8 The Research Population**

Population, according to Castle (1977) and Zikmund (2003) is the complete group of the specific elements relevant to a research project. It is the entire group about which some specific information is required and recorded. This was concurred to by Teddlie, C. and Tashakkori, A. (2009), who said that, a population is the aggregate of all cases that conform to some designated set of specifications. Population for this study comprised of all individuals and business units falling under the informal sector, thus Small to Medium Enterprises in Harare Metropolitan Siyaso area. The study targeted operators in the manufacturing industry, those dealing with metal and wood products among other products. From this population the researcher felt a reasonable and representative sample whose characteristics can be used as inference for the whole population will come out. This is simply done for expediency purposes, since dealing with the whole population is tiresome and time consuming. This was also supported by Strydom and Venter (2000), who said that people are interested in describing the sample as a means of helping them to

explain some facet of the population. Getting the accurate results from the sample will then be based on the sampling technique used by the researcher.

### **3.9 Sampling Design**

Obtaining a representative sample from a given population is done through sample designing. This is a procedure used by the researcher to come up with the elements of the sample. It is through this procedure that the actual number of elements making up the sample is determined. Although there are many designs to a research that a researcher can adopt, it is of paramount importance that, a researcher selects a sample design which is reliable and appropriate for his research study as was elaborated by Kothari (2004). There are a number of sampling techniques which a researcher can use and these have been categorized into probability and non-probability sampling procedures. In probability sampling all the elements of the population have got an equal chance of partaking or being sample subjects. This design is mostly associated with quantitative researches. The sampling techniques under probability sampling include simple random sampling, stratified random sampling, systematic random and cluster sampling. Non probability sampling on the other hand is mostly used in qualitative studies and elements of the population do not stand an equal chance of partaking the study. Some elements have a better chance. Sampling techniques falling under this category include convenience sampling, purposive sampling and snowballing. Probability sampling is widely preferred when representativeness and generalizability are of greater importance in a study. Since the study is survey in nature and takes an explanatory approach in trying to explain the relationship that exist between policy measures and administrative factors, and sustainable voluntary compliance behaviour within the informal sector, probability sampling procedures sufficed and were more suitable. Since the study was dealing with the whole of the manufacturing sector, that is, those dealing with metal, cement products and wood products among others, the researcher opted for the simple random sampling technique which he thought was a more compatible procedure. Also considering that all the trades in the manufacturing sector are governed by the same tax policies and administrative procedures, simple random sampling procedure seemed appropriate. Besides, the trades in manufacturing sector are varied and many, the research felt given the time frame and sample size, the simple random procedure was the most appropriate.

### 3.10 Sample Size

A sample is group of subjects chosen from a larger population with the aim of collecting information about the entire population. According to Cooper (2003), the sample must be representative of the entire population from which it was drawn because the results will be generalised to the entire population. A sample with a reasonable size and representative level having been subjected to a proper sampling technique, produces an accurate outcome of the inference on a given population. According to Strydom and Venter (2000), a sample of 10% of the total population is sufficient for controlling sample errors. The study focused on the informal sector, which automatically made the all the SMEs the target population. The study went further to categorize the sectors within the informal sector into manufacturing, service, transport, whole selling and retailing sectors. The study went further to restrict itself to the manufacturing sector within the informal sector at Siyaso market in Harare Metropolitan. The number of operators in the manufacturing sector at Siyaso market was estimated to be around 2500 according to the City Council database. The researcher then applied the given formulae to come up with the sample size:

<b>Sample size</b>	$N/1+N(e)(e)$ where,
	$N = \text{Total Population}$ $e = \text{Confidence Level}$
	$2500/1+2500(0.5)(0.5)$  <b>= 344.8</b>

The researcher then used a sample size of 345 informal traders which he felt was still manageable given the time and other possible potential constraints.

### 3.11 Data Collection Instruments

According to Cooper (2003), the quality of information gathered from a sample relies on the quality and reliability of the data collection instruments adopted. Though data for any research can either be primary or secondary data, for this particular study, the researcher



made use of primary data as it combated well with the objectives of the study. Given this background, the placing of importance on the data collection instruments and procedure became very essential. According to Mugenda (1999), data collection instruments mainly consist of questionnaires, interviews and documentation. Though the data collection instruments are varied, it was important for the researcher to make use of data collection instruments which combat very well with the study. Since the study is quantitative in nature and took a survey perspective, the most common variations of surveys include questionnaires, interviews and document reviews. The researcher used questionnaires to obtain the relevant data appropriate to answer the research questions and achieve the aforesaid objectives.

### **3.12 Data Collection**

The researcher sought assistance from research assistants in the distribution, monitoring and administration of the questionnaires. The researcher felt this strategy had the potential to give a higher retention rate of the questionnaires whilst also being cognisant of the financial costs involved and potential malpractices by the assistants. The researcher felt the sample size was a bit bigger for individual administration of the questionnaires. The respondents were given self-administered questionnaires to respond to. The questionnaire used the Likert scale format. A Likert scale is a psychometric scale commonly involved in research that employs questionnaires. Likert-type scales according to Bowling 1997, Burns and Grove (1997) use response formats which are fixed and designed to measure attitudes or opinions. These scales measure degree of concurrence amongst respondents. These are merited in that they do not expect just a straight simple yes / no answer from the respondent, but rather give freedom to respondents to determine the level of opinion he or she feels is proper and in other cases no opinion at all. From this quantitative data is obtained, which can be analysed without much difficulty. Offering anonymity on self-administered questionnaires was also considered thereby reducing social pressure, and thus reducing social desirability bias. All the questionnaires were physically handed to the recipients. The respondents were given maximum of a week to respond to the questionnaire and follow ups by the assistants including telephone calls were made to remind them. Small financial tokens were also given to some of the respondents as a way of motivating them to genuinely complete the questionnaires. Provision of personal

information was made optional as a way of proving the genuineness of the study to the respondents.

### **3.13 Data Processing and Analysis**

Data analysis is an integral part of any research study. Therefore a suitable analysis technique should be employed in the data analysis process. The findings can be distorted if they are subjected to an analysis process that has been poorly conceived. For this particular study, the researcher performed data analysis with the aid of the statistical package (SPSS). The process involved data coding, data capturing and processing. The data was then interpreted to answer the research questions and to prove or disprove the stated hypotheses.

### **3.14 Credibility Issues**

#### **3.14.1 Reliability**

Reliability and validity are two key components to be considered when evaluating a research instrument. According to Teddlie, C. and Tashakkori, A. (2009), reliability is concerned with the consistency of the instrument and an instrument is said to have high reliability if it can be trusted to give an accurate and consistent measurement of an unchanging value. Potential threats sources to the instrument in the study were from participant error or bias. In an endeavour to ensure the reliability of the instrument, the researcher tried to simplify and clarify the questions contained in the questionnaire. This was to try and ensure that wrong answers were reduced. The questionnaire was also pretested on some respondents. This was meant to ensure that the questions were clear and easy to respond to. Ultimately the researcher used the cronbach's alpha coefficient test to measure the internal consistency of the instrument. These measures assisted the researcher a great deal in obtaining results which can be relied upon.

### 3.14.2 Validity

According to Teddlie, C. and Tashakkori, A. (2009), validity of an instrument refers to how well an instrument measures the particular concept it is supposed to measure. The researcher employed a number of measures to ensure that the instrument passes the validity test. The researcher's prior knowledge on the subject and some consultations made with informal tax officials at ZIMRA, informal traders themselves and the research supervisor gave the researcher some confidence on the use of the questionnaire. To complement this, the researcher carried out some comparative analysis of responses from the participants and the high degree of similarities in some responses further guaranteed validity of the instrument. In some cases the researcher did put emphasis on the genuineness and benefits of the study in an endeavour to get true responses from the participants.

### 3.15 Ethical Considerations

Due consideration of ethical values on the researcher's part especially on the subject of this nature where voluntary behaviour of individuals is expected in meeting legal obligations is very important and should be emphasized. Thus, this research tried to consider ethics at various stages of the study and especially in dealing with individual potential taxpayers.

Voluntary Tax compliance is a sensitive area especially in a country with political connotations on any activity such as Zimbabwe. The attitude towards voluntary compliance attitude is influenced by many facets but mostly politically linked ones. Failure on one part to comply with tax obligations might be construed as being against the existing political landscape whilst compliance is positively regarded. Fear of being negatively or positively labelled in that regard calls for extensive consideration of ethical principles in the collection of the relevant data.

The key ethical issues considered were self-identification of the researcher, consent and confidentiality of any information relayed by the respondents. The researcher made effort to identify himself and explain the purpose of the study in order to assure the respondents that the researcher was genuine and that the information was not going to be used for any

sinister motive and was going to be kept confidential. The respondents were also told that they are free to refuse to answer any question should they feel uncomfortable with it. The provision of the name of the respondent was also optional to give further comfort to the respondent. What was of importance to the researcher was the informality of the business unit.

### **3.16 Limitations of the study**

Though the researcher tried to minimise the limitations associated with the study, there was potential of confidentiality breaches because of the use of research assistants. Though this was emphasized to the research assistants, the very nature of the strategy exposes confidentiality to a threat. Besides confidentiality issues, the widespread and mobility nature of the targeted respondents who could mainly be business owners, it meant response rate or type of responses was prone to compromise as in some cases not business owners would complete questionnaires on behalf of the owners. Ultimately time, as any research work would face, also proved a challenge especially given the sample size the researcher intended to cover. The research was also limited to analysis of a few tax factors, when there are vast taxation factors that impact sustainable voluntary compliance within the sector.

### **3.17 Conclusion**

The chapter dwelt on the various tenants making up the methodology of the study. These included the research philosophy that the research took, research paradigm, the design and the approach that the research tended to adopt. How the sample for the study was arrived at was also outlined including the research strategies that were used in data collection. The chapter ultimately highlighted the credibility issues associated with the collected data, limitations of the methodology and ethical considerations that the researcher felt were important to the study. The research, in the next chapter will move to the analysis and discussion of the various findings.

## CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND INTERPRETATION

### 4.1 Introduction

In this chapter an analysis of the findings of the study was carried out to determine the impact that taxation policies, and administration have on sustainable voluntary compliance within the informal sector in Zimbabwe. In doing this all the relevant descriptive frequencies for relevant variables under study were laid down and the necessary tests were conducted. An analysis of the findings was ultimately done to answer the research questions in chapter one.

### 4.2 Response rate

*Table 4.1: Response Rate*

Number of Questionnaires issued	345
Number of Questionnaires Completed	201
Response Rate	58.2%

As shown on table 4.1, questionnaires totalling 345 were issued to the various targeted business units within the manufacturing sector in the informal sector at Siyaso market in Harare's metropolitan. From these 201 signifying 58.2% were responded to and considered adequate and valid. The researcher was satisfied with the response rate and attributed it to the administration strategy he implemented. The non-response by some targeted respondents had always been anticipated. However, and was backed by Saunderet al (2009) any response rate that is 50% and above would warranty validity of the study findings.

### **4.3 Research results**

In order to be certain of the research results, a thorough check of data errors and elimination of errors thereof was of paramount importance. The researcher therefore subjected his data to various tests which included:

- Reliability tests using the Cronbach Alpha co-efficient
- Normality tests for data distribution and statistical significance of the data
- Correlation coefficient to test the extent of the relationship between independent and dependent variables
- Regression analysis to test the impact and whether independent variables can predict the dependent variable

### **4.4 Reliability Test**

Reliability of data or information for any research work is of paramount importance to any study work, therefore all effort should be directed to ensure that. Reliability as was postulated by Polit et al (2013), refers to the level of consistency with which an instrument measures the property it has been intended to quantify. It tries to ensure that there is internal consistency within the instrument and that all the study factors measures the intended variable. Cronbach's Alpha coefficient is the generally utilized marker of inward consistency. Cronbach's Alpha coefficient checks the degree to which the things on the research instrument for this situation a survey is all measuring a similar construct. The Cronbach Alpha measure of the data collection instrument should exceed 0.7 for it to be considered reliable according to Malhota, (2007). For this particular study, the researcher subjected the research instrument to reliability checks in order to establish whether there are internal consistencies within it in as far as factors impacting voluntary sustainable remittance of taxes are concerned. The Cronbach's Alpha coefficient for this questionnaire was 0,722 which is greater than the threshold of 0.7 which implies that all questions in the questionnaire were consistently measuring the same construct. The data collection instrument was therefore regarded as reliable. Table 4.2 shows the reliability test results.

Table 4.2: Cronbach Alpha

Reliability Statistics	
Cronbach's Alpha	No of Items
.722	28

There are two major contributors to the high reliability score above. Firstly, the tool was given to a consultant for amendments before distributing. Secondly, a pilot test was carried out with ten questionnaires before data collection.

#### 4.5 Validity test

Validity tests are intended to measure the extent to which an instrument measures what the researcher intends to measure. This was concurred to by Burns and Grove (2009), who claimed that, validity entails the extent to which an instrument measures the parameter under study. For this particular study, the researcher subjected his data to internal and content validity tests. Internal validity measures the extent to which the instrument restricts itself to what it is supposed to measure. Content validity on the other hand ensures the instrument being used adequately covers all content on the subject understudy. The researcher made use of experts in SMEs issues as well as the study supervisor to validate the research instrument.

#### 4.6 Normality Test

In order to determine the correct statistical tests to use in data analysis, the data ought to be subjected to some normality tests. These tests tell how the data is distributed. Normality tests can either be parametric, thus for normally distributed data or non-parametric which will be for unevenly distributed data. Thus, the researcher subjected his data to these tests, and the results revealed the following as shown on the table 4.3.

Table 4.3: Tests of Normality

Tests of Normality						
	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
There are too many forms of tax for the sector	.440	201	.000	.577	201	.000
The tax rates are too exorbitant	.477	201	.000	.515	201	.000
Compliance costs are too high and demotivates us to comply	.469	201	.000	.534	201	.000
Policies negatively impacts on business profits	.512	201	.000	.398	201	.000
The policies do not promote sustainability for the small business within the sector	.531	201	.000	.309	201	.000
Higher tax rates negatively influences sustainable voluntary compliance behaviour	.531	201	.000	.309	201	.000
Tax education is readily available within the sector	.446	201	.000	.527	201	.000
Many informal traders are aware of all tax matters	.463	201	.000	.532	201	.000
Available tax education enables us to calculate our tax obligations	.452	201	.000	.556	201	.000
Tax education for the sector should be simplified as most operators are not that educated	.483	201	.000	.442	201	.000
Authorities often give tax updates to business within the sector	.490	201	.000	.430	201	.000
Lack of tax education affect the company's tax compliance behaviour	.503	201	.000	.405	201	.000
The tax system is riddled with corruption and malpractices by the enforcement agents	.529	201	.000	.319	201	.000
The tax system for the sector is not certain	.467	201	.000	.541	201	.000
Tax assessments are not equally administered to all	.510	201	.000	.407	201	.000
Tax assessments are not fairly administered to all	.519	201	.000	.370	201	.000
The penalties are too high and unfairly administered	.495	201	.000	.405	201	.000
Poor administration of tax principles of fairness, equity and certainty negatively impacts on voluntary compliance behaviour of entities within the sector	.513	201	.000	.362	201	.000
There are incentives for paying taxes	.465	201	.000	.529	201	.000
The business values remittance of tax to the authorities	.505	201	.000	.439	201	.000
Entities within the sector value the payment of taxes to the authorities	.513	201	.000	.416	201	.000
Authorities value businesses within the informal sector	.523	201	.000	.382	201	.000
Entities within the sector receive access to public utilities and services funded by the taxes collected for the government by ZIMRA	.486	201	.000	.503	201	.000
Non provision of utilities and basic services and infrastructure impacts negatively on compliance behaviour	.375	201	.000	.668	201	.000
Costs associated with the presumptive and intermediate money transfer tax policies do not encourage businesses to voluntarily comply with their tax obligations	.411	201	.000	.633	201	.000



Tests of Normality						
Tax education and availability of information goes a long way in promoting sustainable voluntary compliance behaviour within the sector.	.408	201	.000	.646	201	.000
Ensuring a tax system that is fair, certain and equal to all encourages businesses to voluntarily comply with their tax obligations.	.408	201	.000	.641	201	.000
Spending tax revenues on social projects beneficial to the taxpayers makes them more willing to voluntarily comply.	.408	201	.000	.641	201	.000
a. Lilliefors Significance Correction						

Sample size at this point play a very significant role as it further determines the actual test that suits the data. Essentially the tests are separated into two thus, .Kolmogorov-Sminov test usually for sample sizes above 2000 and the Shapiro Wilk test for smaller samples, below 2000. The significance value, thus (p-value) defines data distribution. If the (p-value) is greater than 0.05, the data set is normally distributed otherwise the data is unevenly distributed if the value from the tests falls short of 0.05. The table above explicitly shows P-Values of .000 which means the data is unevenly distributed. This then means that non-parametric tests, thus regression and correlation analyses are best suited to apply on the data for this study.

#### 4.7 Demographics data

The researcher felt that for the study to be most fulfilling and holistically achieve its intended objectives in the most objective way, demographic data was of paramount importance, hence there was every need to collect the socio demographic data of the respondents. This was further supported by Cooper, (2012), who said that, it is crucial to collect demographic data for respondents. This was done for the researcher to have a better understanding of the SMEs and guarantee himself that information collected about the subject under review is from the right and knowledgeable persons. The key variables were their position in the organization, gender, education level, experience, age of the organisation and monthly turnover of the business. This information was important and impacted on the ultimate responses about the tax subject.

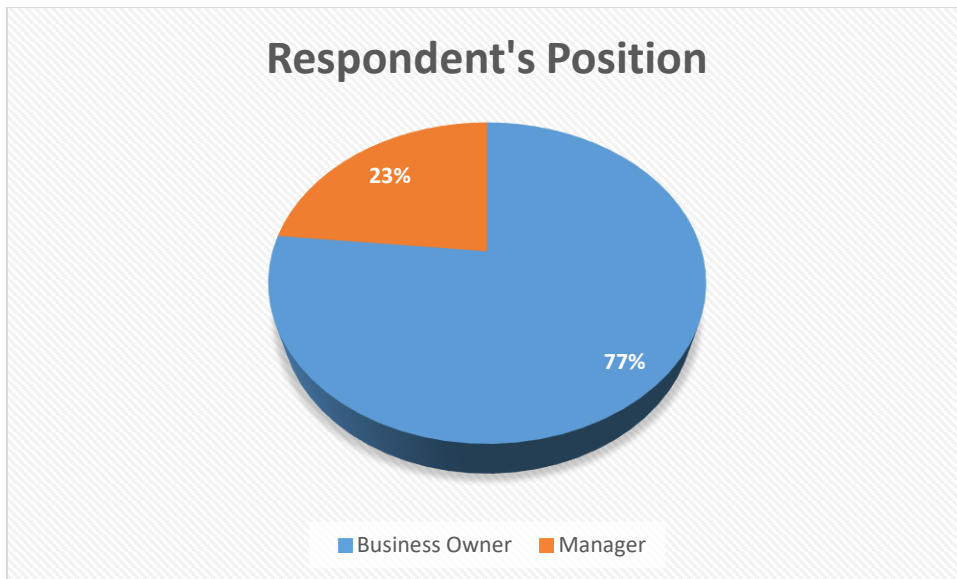


Figure 4: Respondent's Position

Most of the respondents were business owners constituting 76.6%. Typical of SMEs in the area, most of them run their businesses on their own or they may employ their immediate family members. Only 23.4% of the respondents were managers. In some instances, the manager was also a relative to the SME owner.

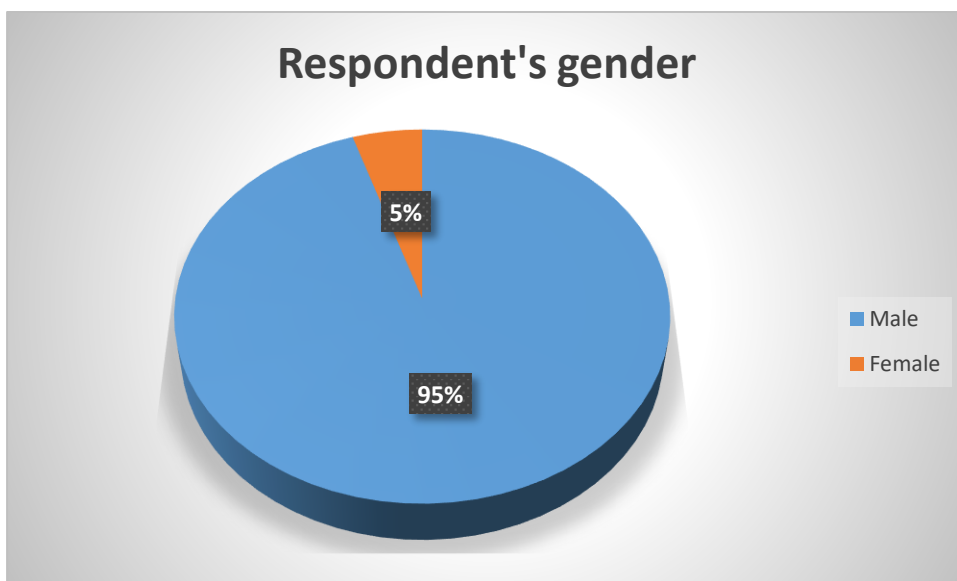


Figure 5: Respondent's Gender

The majority of the respondents were males (95%) mainly because the work they do is laborious. However, the other 5% were women respondents who held managerial roles.

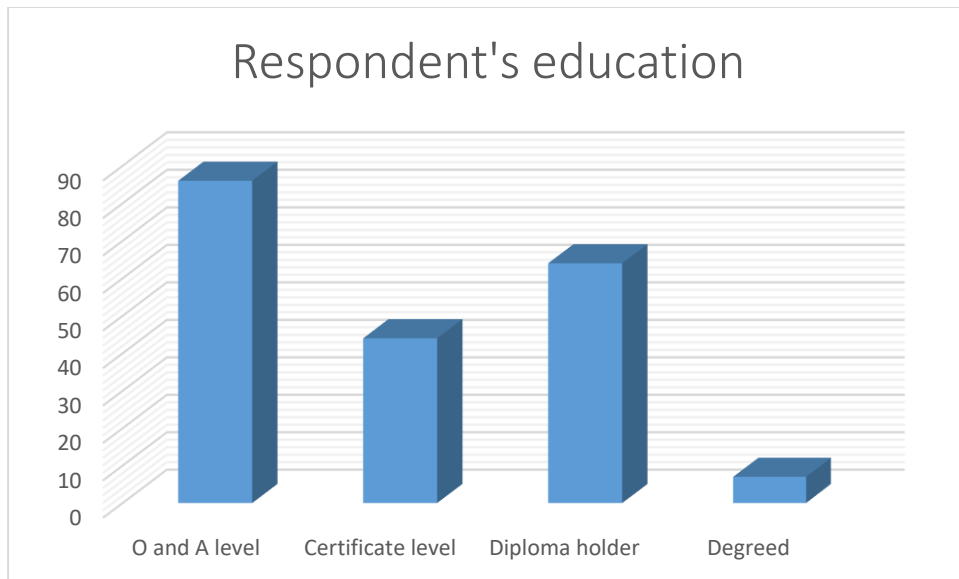


Figure 6: Respondent's Education Level

Most of the respondents were holders of O level certificates constituting 42.8% of all the respondents. 31.8% were holders of diplomas yet the other 21.9% were certificates holders. Only 7% had degrees. This area is infested with people who have not exuded much in terms of education. In most cases these are family businesses which can be inherited and it does not require much in terms of education. The existence degreed persons in this sector was attributed to the unemployment levels in the formal sector and possibly government's emphasis on entrepreneurship.

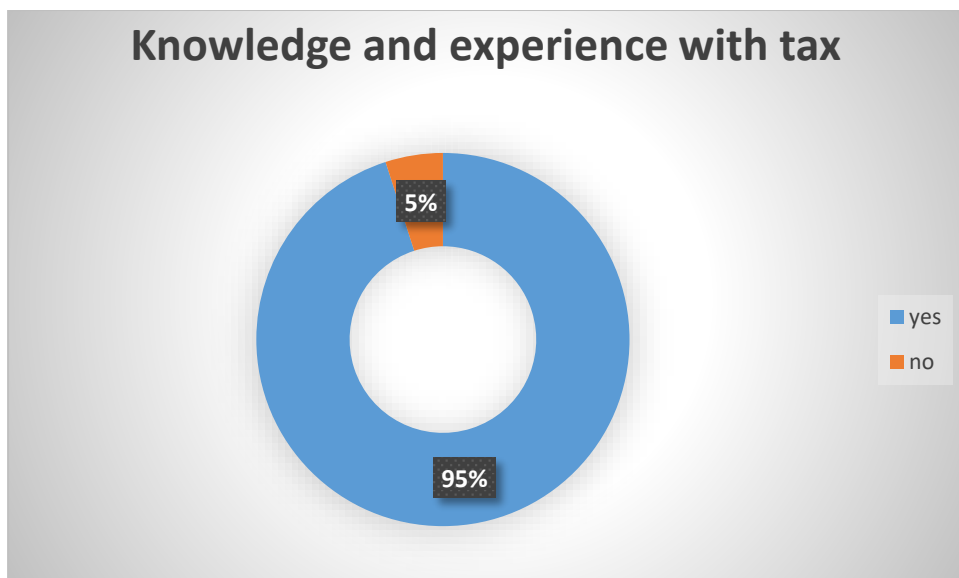


Figure 7: Respondents' Tax Knowledge

The majority of the respondents were aware of the tax issues constituting 95% of all the respondents except for the other 5% who were not knowledgeable enough when it comes

to tax issues. This gave the researcher confidence in the ultimate data collected as this showed that he was dealing with the rightful persons.

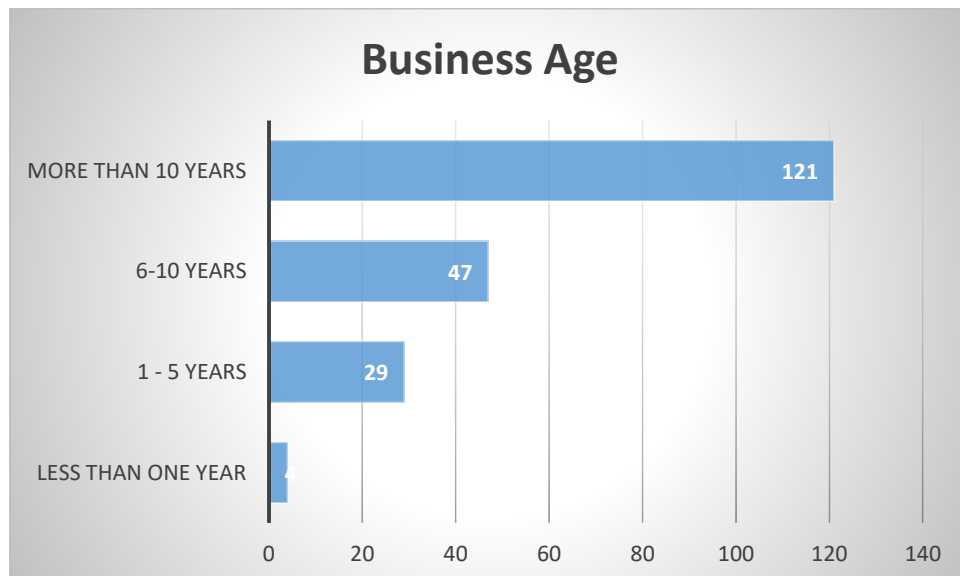


Figure 8: Business Age

Most of the businesses were generational businesses and have been in existence since early 2000s meaning they have operated for more than 10 years (64.7%). The other 23.4% operated for a period between 6 to 10 years yet others 14.4% operated between 1 to 5 years. With the least percentage are the newbies in business constituting 2%, those who have operated for less than a year. This meant that most businesses who were respondents to the study, probably had experience and information on tax matters in the sector. This was another positive for the researcher.

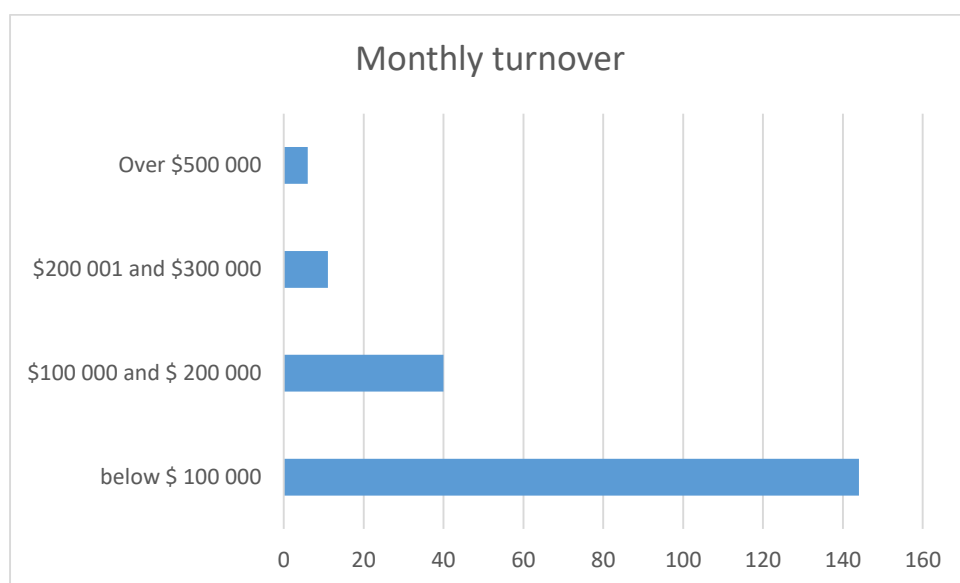


Figure 9: Monthly Turnover

Most of the respondents (71.6%) were getting an average monthly turnover of below ZWL\$ 100 000 before cost of goods sold which signifies how small they are. 19.9% get an approximate of \$100 000-\$200 000 per month. Only 3% can get over ZWL\$500 000 monthly turnovers. These figures though varying were all subject to informal sector tax in one way or the other. This again showed that the respondents to the study were the rightful ones.

## 4.8 Presentation of findings

### 4.8.1 Tax costs: presumptive and intermediate money transfer tax policies.

A likert scale of 1-5 was used to select the appropriate responses from the choices; 5- Strongly Agree, 4-Agree, 3-Neutral, 2-Disagree, 1-Strongly Disagree. From the results an average score was calculated; **1- 3 – Small Extent, 3 – 3.5 - Average, 3.5 – 5 – Large Extent**

Table 4.4: Item Statistics (Tax Costs)

Item Statistics			
	Mean	SD	N
There are too many forms of tax for the sector	4.63	.718	201
The tax rates are too exorbitant	4.73	.572	201
Compliance costs are too high and demotivates us to comply	4.72	.578	201
Policies negatively impacts on business profits	4.81	.536	201
The policies do not promote sustainability for the small business within the sector	4.85	.508	201
Higher tax rates negatively influences sustainable voluntary compliance behaviour	4.85	.508	201

A mean score analysis table was used to capture varying responses of respondents. Mean scores were between 4 and 5, meaning that most respondents concurred to the fact that taxation costs within the sector are too exorbitant and this negatively impacts their business operations.

### 4.8.2 Availability of tax education

A likert scale of 1-5 was used to select the appropriate responses from the choices; 5- Strongly Agree, 4-Agree, 3-Neutral, 2-Disagree, 1- Strongly Disagree. From the results an average score was calculated; **1- 3 – Small Extent, 3 – 3.5 - Average, 3.5 – 5 – Large Extent.**

Table 4.5: Item Statistics (Tax Education)

Item Statistics			
	Mean	SD	N
Tax education is readily available within the sector	1.50	1.078	201
Many informal traders are aware of all tax matters	1.32	.685	201
Available tax education enables us to calculate our tax obligations	1.34	.690	201
Tax education for the sector should be simplified as most operators are not that educated	4.60	1.015	201
Authorities often give tax updates to business within the sector	1.39	1.014	201
Lack of tax education affect the company's tax compliance behaviour	4.63	1.012	201

A mean score analysis table was used to capture varying responses of respondents. Mean scores were between 1 and 5. Variables were arranged in their order of acceptance. Responses indicated that there is lack of tax education in the sector, and to a larger extent the responses agreed that tax education for the sector should be simplified.

#### 4.8.3 Fairness, certainty and equity of tax system

A likert scale of 1-5 was used to select the appropriate responses from the choices; 5- Strongly Agree, 4-Agree, 3-Neutral, 2-Disagree, 1- Strongly Disagree. From the results an average score was calculated; **1- 3 – Small Extent, 3 – 3.5 - Average, 3.5 – 5 – Large Extent**

Table 4.6: Item Statistics (Tax Principles)

Item Statistics			
	Mean	SD	N
The tax system is riddled with corruption and malpractices by the enforcement agents	4.85	.511	201
The tax system for the sector is not certain	4.71	.580	201
Tax assessments are not equally administered to all	4.80	.539	201
Tax assessments are not fairly administered to all	4.82	.527	201
The penalties are too high and unfairly administered	4.70	.837	201
Poor administration of tax principles of fairness, equity and certainty negatively impacts on voluntary compliance behaviour of entities within the sector	4.73	.829	201

In as far as the administration of tax within the sector is concerned, respondents had almost the same perception of the tax system within the sector. This was evident from the mean score range of 4 and 5.

#### 4.8.4 Fiscal exchange principle

A likert scale of 1-5 was used to select the appropriate responses from the choices; 5- Strongly Agree, 4-Agree, 3-Neutral, 2-Disagree, 1- Strongly Disagree. From the results an average score was calculated; **1- 3 – Small Extent, 3 – 3.5 - Average, 3.5 – 5 – Large Extent.**

Table 4.7: Item Statistics (Fiscal Exchange)

Item Statistics			
	Mean	SD	N
There are incentives for paying taxes	1.58	1.206	201
The business values remittance of tax to the authorities	1.28	.717	201
Entities within the sector value the payment of taxes to the authorities	1.27	.712	201
Authorities value businesses within the informal sector	1.25	.706	201
Entities within the sector receive access to public utilities and services funded by the taxes collected for the government by ZIMRA	1.53	1.171	201
Non provision of utilities and basic services and infrastructure impacts negatively on compliance behaviour	3.54	1.830	201

A mean score analysis table was used to capture varying responses of respondents. Mean scores were between 1 and 4. Respondents to a lesser extent believed there was any value or benefit in paying taxes as authorities do not value them. Respondents shared similar view of how this affect their business operations.

#### 4.8.5 Sustainable voluntary compliance

A likert scale of 1-5 was used to select the appropriate responses from the choices; 5- Strongly Agree, 4-Agree, 3-Neutral, 2-Disagree, 1- Strongly Disagree. From the results an average score was calculated; **1- 3 – Small Extent, 3 – 3.5 - Average, 3.5 – 5 – Large Extent.**

Table 4.8: Item Statistics (Sustainable Voluntary Compliance)

Item Statistics			
	Mean	SD	N
Costs associated with the presumptive and intermediate money transfer tax policies do not encourage businesses to voluntarily comply with their tax obligations	3.81	1.734	201
Tax education and availability of information goes a long way in promoting sustainable voluntary compliance behaviour within the sector.	3.88	1.648	201
Ensuring a tax system that is fair ,certain and equal to all encourages businesses to voluntarily comply with their tax obligations	3.87	1.669	201
Spending tax revenues on social projects beneficial to the taxpayers makes them more willing to voluntarily comply.	3.87	1.669	201

The mean score range was between 3.5 and 4 showing great concurrence amongst participants within the informal sector on how tax costs, tax information, tax principle and fiscal exchange principle affect sustainable voluntary compliance.

#### 4.9 Inter- correlation of items

The researcher subjected the identified variables to associativity tests as indicated on the summarised correlation table below. The impact of taxation policies and administration on sustainable voluntary compliance behaviour of the informal sector in Zimbabwe was tested. The tests measured the extent to which the stated variables, thus tax costs, tax education, tax principles and fiscal exchange, are related to each other. Spearman's rank correlation test was used because the data that was collected was uneven. The Inter-correlation analysis of items showed the relationship of each independent variable against the dependent variable, in as far as direction, significance, magnitude and multi-collinearity amongst the independent variables are concerned.

Correlations						
		Tax costs	Availability of tax information	Fairness, certainty and equity of tax system	Fiscal exchange principle	Sustainable voluntary compliance
Tax costs	Pearson Correlation	1				
	Sig. (2-tailed)					



	N	201				
Availability of tax information	Pearson Correlation	-.528**	1			
	Sig. (2-tailed)	.000				
	N	201	201			
Fairness, certainty and equity of tax system	Pearson Correlation	.852**	-.436**	1		
	Sig. (2-tailed)	.000	.000			
	N	201	201	201		
Fiscal exchange principle	Pearson Correlation	-.499**	.315**	-.517**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	201	201	201	201	
Sustainable voluntary compliance	Pearson Correlation	.092	.033	.115	.325**	1
	Sig. (2-tailed)	.196	.646	.105	.000	
	N	201	201	201	201	201
**. Correlation is significant at the 0.01 level (2-tailed).						

Table 4.9: Correlation

### Direction

From the correlations tests shown on table 9, all the independent variables thus tax costs, tax information availability, principles of tax system and the fiscal exchange principle had a positive relationship with sustainable voluntary compliance. This means that any negative tempering with tax costs, tax information, tax principles and the fiscal principle also negatively influences sustainable voluntary compliance whilst any positive influence also tend to positively influence sustainable voluntary compliance.

### Statistical significance

The relationship between the independent and dependent variable is said to be statistically significant if results show ( $p \leq 0.05$ ), otherwise the relationship is insignificant and is only occurring by chance. The results from the tests clearly showed that there is a statistically significant relationship between the fiscal exchange principle to tax and sustainable voluntary compliance as shown by the result ( $p = .000$ ). However the relationship between tax costs, tax information and satisfaction of the tax principles, and sustainable voluntary compliance within the informal sector was statistically insignificant, meaning that any relationship which might exist can only be by chance.

## **Magnitude**

Magnitude of any relationship between variables entails the strength of the relationship. The strength of the relationships ranges from weak to strong. According to Saunders et al. (2009), correlation coefficient between 0 - 2.99 is considered as weak, yet, 0.3 - 0.499 range is considered to be moderate and anything above 0.5 is considered to be strong. Results from the tests, as shown on the table above, showed a weak relationship exists between tax costs, tax information availability, and satisfaction of the tax principles and sustainable voluntary compliance respectively. This is evident from p values of less than 0.3. However there exist a moderate relationship between the fiscal exchange principle and sustainable voluntary compliance as indicated by a (0.325\*\*) value.

## **Multi-collinearity**

Multi-collinearity are tests carried out amongst the independent variables to determine whether they are independent of each other. Basically it follows that independent variables to a research study should be independent of each other lest they are explaining one thing. In that case one factor has to be discarded or they should be combined. Independent variables are highly correlated if tests results show ( $r \geq 0.9$ ). The multi-collinearity tests amongst independent variables to this study, thus, tax costs, tax information, tax principles and fiscal exchange, showed results of less than 0.9 in all relations as shown on the correlation table above. This meant that the independent variables explained totally different phenomena in as far as sustainable voluntary compliance is concerned.

## **4.10 Regression Analysis**

Besides using correlation analysis in analysing the relationship between tax factors and sustainable voluntary compliance, the researcher went on to use the regression analysis to test the impact of the individual tax factors on sustainable voluntary compliance, overall impact of the model on sustainable voluntary compliance and tell whether the model fits or is statistically significant to explain sustainable voluntary compliance within the informal sector. Below is the Model summary, Anova or F test and Co-efficient tables.

Table 4.10: Regression

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.470 <sup>a</sup>	.221	.205	1.49196
a. Predictors: (Constant), FISCAL_EXCHANGE_PRINCIPLE, TAX_INFORMATION, FAIRNESS_AND_EQUITY, TAX_COSTS				

The model summary regression table shows the extent, in percentage terms, to which the various independent variables explain the dependent variable. Regression analysis, as shown in table 10, was done to show the extent to which tax costs, tax information availability, fairness, certainty and equity of tax system and fiscal exchange principle explain sustainable voluntary compliance within the informal sector. The findings in the table above of the model summary gives an R Square value of .221 and Adjusted R Square of .205. The researcher used the Adjusted R. Square value in the analysis for it is regarded as more accurate by many scholars in sharing the predictive power on the dependent variable and also that it caters for sampling errors. The results showed that, 20.5% of sustainable voluntary compliance behaviour is predicted by tax costs availability of tax information, fairness, certainty and equity of a tax system and the fiscal exchange principle. However, the remaining 79.5% is probably explained by other variables falling outside the scope of this study.

Table 4.11: Anova

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	123.647	4	30.912	13.887	.000 <sup>b</sup>
	Residual	436.284	196	2.226		
	Total	559.931	200			
a. Dependent Variable: SUSTAINABLE_VOLUNTARY_COMPLIANCE						
b. Predictors: (Constant), FISCAL_EXCHANGE_PRINCIPLE, TAX_INFORMATION, FAIRNESS AND EQUITY, TAX COSTS						

The model was also tested for fitness to determine whether it was fit to explain the study phenomena. An ANOVA analysis was carried out between sustainable voluntary compliance and the independent variables (tax costs: presumptive and intermediate money transfer tax policies), availability of tax information, fairness, certainty and equity

of tax system and fiscal exchange principle. This was done at 95% confidence level. The results showed F value = 13.887,  $P < 0.000$ ). This therefore meant that according to the tests, there exist a linear relationship between sustainable voluntary compliance and its predictors and the model proved to be statistically significant in explaining the phenomena.

Table 4.12: Coefficients

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-6.118	2.153		-2.842	.005
	Tax costs	.427	.422	.130	1.011	.313
	Availability of tax information	.414	.450	.069	.920	.359
	Fairness, certainty and equity of tax system	.950	.381	.307	2.494	.013
	Fiscal exchange principle	1.372	.194	.527	7.073	.000
a. Dependent Variable: SUSTAINABLE VOLUNTARY COMPLIANCE						

The regression tests also determines the impact of each individual factor on the dependent variable. According to the regression analysis, a p-value below 0.05 signifies a significant relationship between the dependent and independent variables. Accordingly, for this study, taxation principles of fairness, certainty, equity and the fiscal exchange principle relate significantly and impact sustainable voluntary compliance as shown by values ( $p = .013$ ) and ( $p = .000$ ) respectively.

#### 4.11 Hypotheses

Table 4.13: Hypothesis testing

Hypothesis	Decision
Taxation costs negatively impacts voluntary sustainable compliance behaviour for those in the informal sector	Hypothesis rejected
Tax education positively impacts sustainable voluntary compliance behaviour of the informal sector	Hypothesis rejected

A taxation system that satisfies the principles of fairness, certainty and equity positively influences sustainable compliance levels within the informal sector	Hypothesis accepted
Ensuring fiscal exchange between authorities and taxpayers positively promotes sustainable voluntary compliance behaviour by the informal sector	Hypothesis accepted

#### **4.12 Chapter summary and discussion of findings**

In this chapter the researcher gave an analysis of the collected data and analysed and explained relationships between the various tax factors and sustainable voluntary compliance within the informal sector.

The researcher first subjected his research instrument to reliability test to test whether the instrument was indeed consistent with the phenomena it meant to measure. The test proved that the instrument was indeed reliable.

Basic demographic information was collected and analysed and various frequencies produced using SPSS. Analysis from the demographic data showed that the informal sector was male dominated with most business units being run by their owners. Most owners exhibited knowledge in tax matters and probably their businesses were liable to taxation since they collected amounts above the given threshold.

The researcher then conducted correlation analysis, to determine the extent of the relationship between the independent variables, thus tax costs, tax education, taxation principles, fiscal exchange and sustainable voluntary compliance. The results showed that there existed a positive relationship between the various factors and sustainable voluntary compliance behaviour. The relationship between the fiscal exchange principle and sustainable voluntary compliance was seen to be statistically significant and moderately stronger as compared to the other factors. The tests, however showed that all the factors totally explained different phenomena in as far as the subject is concerned.

The model as a whole as indicated in chapter 2 and individual factors were also tested for fitness using the regression analysis. The results showed that the independent tax

variables explained 20.5% of sustainable voluntary compliance. The model was regarded as fit to explain voluntary compliance behaviour. Tax principles of fairness, equity, certainty and the fiscal exchange principles significantly impacted on sustainable voluntary compliance behaviour and initial claims made of them in chapter 1 were proved correct whilst claims made on tax costs and information were rejected.

#### **4.13 Chapter summary**

The chapter analysed data collected by the researcher. The researcher used a questionnaire to collect data. The questionnaire had six sections including demographics. The statistical package SPSS version 25 was used to assist in data analysis. Detailed tests were explained and their relevance to the research discussed. The chapter links with the next chapter where the researcher gave a summary of the findings, concluded and gave recommendations according to analysis and discussion presented herein.

## CHAPTER 5: SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

### 5.1 Introduction

The study investigated the impact that taxation policies and administration have on sustainable voluntary compliance of the informal sector in Zimbabwe. In this chapter the research findings being informed by the research objectives and questions were summarised, then conclusions and recommendations drawn. The chapter also recommended areas for future research which the researcher thought by carrying out these the conceptual framework as stated in chapter 2 would near completion and become implementable.

### 5.2 Achievement of research objectives

The main objective of the study was to investigate the impact that taxation policies and administration have on the sustainable voluntary compliance by the informal sector. The sub objectives were to:

- Quantify the impact of tax costs on sustainable voluntary compliance by the informal sector.
- Ascertain the impact that tax education and or information have on sustainable voluntary compliance behaviour of those in the informal sector.
- Determine the extent to which tax principles of fairness, certainty and equity positively influence sustainable voluntary compliance behaviour within the informal sector.
- Tell whether the fiscal exchange principle play any role in positively influencing sustainable compliance behaviour within the informal sector.
- Recommend strategies, tax policies and other tax administrative factors that can positively influence sustainable voluntary compliance within the informal sector.

Responses from the respondents were analysed using the statistical techniques and drew the following findings which were used to make conclusions and proffer recommendations to the responsible authorities.

**Objective 1: To quantify the impact of tax costs on sustainable voluntary compliance by the informal sector.**

Literature and previous researches on related tax subject have in most cases concurred on the effects of these on sustainable voluntary compliance of potential taxpayers. This study established that taxes for the informal sector in Zimbabwe are too varied and the rates are too exorbitant, a thing that negatively impacts sustainability of small businesses operating in the informal sector. As a result of this informal sector traders try by all means to evade paying their tax obligations. However, although the tests results indicated a positive relationship between taxation associated costs and sustainable voluntary compliance behaviour, statistically the relationship proved insignificant and weak. The impact on sustainable voluntary compliance proved less, and automatically led to the rejection of the made claim on tax costs' impact on sustainable voluntary compliance.

**Objective 2: To ascertain the impact that tax education have on sustainable voluntary compliance behaviour of those in the informal sector.**

Tax education have been regarded in wider circles as an important tenant to the ultimate compliance behaviour of operators within the informal sector. Responses from the research participants were quite clear that they are less informed on tax matters and this tend to have a negative effect on their compliance behaviour. Despite there being a positive relationship between availability of tax education and sustainable voluntary compliance behaviour, the relationship proved to be statistically insignificant and weak, resulting in tax education availability impacting less on sustainable voluntary compliance behaviour by the informal sector. The study tests also did not concur to the prediction that tax education availability positively impacts sustainable voluntary compliance behaviour of the informal sector.

**Objective 3: To determine the extent to which tax principles of fairness, certainty and equity positively influence sustainable voluntary compliance behaviour within the informal sector.**

Tax administration in Zimbabwe's informal sector is poorly administered. It is riddled with corrupt tendencies and malpractices by the enforcement agents. It is not equally and fairly administered to all operators. This tend to negatively affect sustainable compliance behaviour. Although statistically the relationship with sustainable compliance behaviour



proved insignificant and weak, to a very larger extent, taxation principles of fairness, certainty and equity positively influence sustainable voluntary compliance behaviour within the informal sector. This only, but buttressed findings by other researches of this factor to tax compliance. Also, the claim that a taxation system that satisfies the principles of fairness, certainty and equity positively influences sustainable compliance levels within the informal sector was confirmed.

**Objective 4: To tell whether the fiscal exchange principle play any role in positively influencing sustainable compliance behaviour within the informal sector.**

The general perception from the majority of the informal sector traders revealed that paying taxes is of no value to them as they do not benefit anything from it. The facilities they use are poor and in general the government do not recognise their businesses yet they play a key role in the general economy of the country. Findings from the study, revealed that lack of recognition from the central government affect their compliance behaviour in the same way. This means that there exist a positive relationship between fiscal exchange and sustainable voluntary compliance behaviour. The relationship proved moderate and statistically significant. From the study, absence of fiscal exchange significantly impacts sustainable voluntary compliance, meaning that it plays a significant role in influencing sustainable compliance behaviour within the informal sector, thereby confirming the stated hypothesis about fiscal exchange.

**Objective 5: To recommend strategies, tax policies and other tax administrative factors that can positively influence sustainable voluntary compliance within the informal sector.**

These were largely discussed in the paragraphs to follow.

### **5.3 Conclusions**

Conclusively, the level of taxation costs, tax education, taxation principles of fairness, equity, fairness and the fiscal exchange principle have an impact on sustainable voluntary compliance behaviour by the informal sector traders. However, although the degree of impact as a result of taxation costs and tax education is slightly less, compromising on taxation principles and the fiscal exchange principle by the authorities heavily impact sustainable compliance behaviour by the informal sector. This then calls for more attention to these, as the recommendations in the preceding paragraphs shall reveal.

## **5.4 Answers to research questions**

The main question that the study sought to answer was what impact do the existing taxation policies and tax administration have on sustainable voluntary compliance of the informal sector? The following responses were established from the various secondary questions that arose from the main research question.

### **Question 1: What impact do the taxation costs have on sustainable voluntary compliance by the informal sector?**

Taxation costs, according to this study findings do not impact on sustainable voluntary compliance behaviour of the informal sector participants. If there is, it is very insignificant and little attention to this area should therefore be given by the authorities.

### **Question 2: Does tax education play any role in coercing potential taxpayers to sustainably comply with their tax obligations?**

The availability or non-availability of tax education to the informal sector business operators does not play any significant role in influencing sustainability within the sector in as far as tax compliance is concerned.

### **Question 3: To what extent do the taxation principles of fairness, certainty and equity influence sustainable voluntary compliance behaviour within the informal sector?**

The study findings established that the taxation principles of fairness, certainty and equity influence sustainable voluntary compliance behaviour within the informal sector to a very greater extent.

### **Question 5: Does the fiscal exchange principle have any impacting role in the behaviour of participants within the informal sector in as far as voluntary compliance is concerned?**

The fiscal exchange principle to tax compliance was proved beyond any reasonable doubt to be a very important factor in realising the full compliance potential behaviour within the informal sector. Its impacting role was confirmed by the study findings.

**Question 6: What tax policies and other administrative strategies can be implemented in order to encourage sustainable voluntary compliance behaviour within the informal sector?**

These were addressed in the recommendations paragraphs.

## **1.5 Contribution**

### **1.5.1 Theoretical Contribution**

Most of the existing literature on the tax subject on the informal sector has tended to focus on challenges of collecting tax revenues from the informal sector and effects of individual tax factors on tax compliance within the sector. Not much literature exist on the impact of the existent factors on sustainability of the compliance behaviour. Sustainability should be greatly emphasized if the informal sector is to be regarded as a revenue source to the national fiscus. Also literature has not emphasized much on the impact factor. Emphasizing on the impact of each factor goes a long way in fully informing authorities on the appropriate measures to put in place to realise the full potential that lies within the sector. Taking the above into consideration, the new framework that can be fully exploited within the sector to realise its full potential, became:



*Figure 10: Revised Conceptual Framework*

Taxation principles and the fiscal exchange principles significantly impact sustainable voluntary compliance within the informal sector. Therefore emphasis of relevant authorities when dealing with the informal sector and wanting to promote sustainable voluntary compliance should give maximum attention to these tenants.

### **5.5.2 Methodological Contribution**

This study like most researches in the area have tended to use the quantitative methodology with the questionnaire and other survey techniques being the most common data collection instruments. However, the informal sector, because of its nature requires close interaction with the participants, where consideration of various ethics comes in handy. The widespread and mobile nature of the sector requires close monitoring and also the time factor which can be a constraint in covering them. This basis motivated the researcher to employ research assistants in the administration of questionnaires. This was done to get their maximum possible cooperation and genuine responses.

### 5.5.3 Empirical Contribution

Taxation principles of fairness, equity, certainty and the fiscal exchange principles are important considerations in ensuring sustainability of tax compliance within the informal sector. Every effort should be directed towards ensuring of these if sustainability within the sector is to be realised.

## 5.6 Recommendations of the study

Achieving sustainability of tax compliance within the informal sector is not only premised on the continuous formulation of policies, but consideration of favourable reforms that are generally acceptable amongst all tax stakeholders. Therefore basing on the findings, and in order to have sustainable voluntary compliance by the informal sector the following measures should be taken aboard by the tax authorities:

### 5.6.1 Policy recommendations

#### **Ceding control to local government**

The fiscal exchange principle, which the study found to have a significant impact on sustainable compliance behaviour of the informal sector is better administered by council under the local government. Although this might be regarded to be too extreme by some stakeholders in tax administration, the fact that council already has obligation to ensure service provision and levy taxes and other charges, it makes it easier under this set up to

ensure fiscal exchange practices. This goes a long way in ensuring and encouraging sustainability in tax compliance within the sector.

### **Ensuring government support**

Recognition and support of the informal businesses by the government is a measure that will ultimately result in sustainable compliance behaviour by the sector. It should not be difficult for the informal sector to access any type of support from the government. The government should set aside significant financial resources for the informal sector which should be easily accessible. This goes a long way in complementing the fiscal exchange principle which proved to have a significant impacting role on the ultimate compliance behaviour of the informal sector. The informal sector plays a critical role in the economy of any country therefore it should be a recognised set up. It is easy to collect tax from a recognised institution.

### **Tax costs - penalty balancing act**

From the study finding it was established that taxation associated costs do not significantly relate with sustainable voluntary compliance behaviour of the informal sector and impact less on sustainable voluntary compliance behaviour. This therefore means that authorities should not devote much attention to this area. Increasing tax rates or decreasing them as a way of influencing sustainable compliance should not be a priority to authorities in their policy enunciations. However, to a lesser extent though, consideration of the submissions made by the traders that taxation rates were exorbitant is important. The presumptive tax model compounded by the recently enunciated compulsory intermediate money transfer policy is taking a toll on most traders within the sector. The existing default penalty model further compounds taxpayers' resentment of the whole tax system. Expecting voluntary compliance becomes too much of the authorities. A tax rate- penalty balancing act has to be adopted. Therefore authorities should consider lowering the tax rates to enhance collections. Lower tax rates make it less attractive to evade taxes as opposed to high rates. The penalty rates should be kept at an optimum level not to discourage taxpayers. Tax rates therefore should be structured in a way that encourages tax compliance behaviour and the tax authority is required to keep it as much as possible to the minimum.

## 5.6.2 Managerial recommendations

### **Fiscal exchange**

From the study finding it can be inferred that a perception of government spending has a substantial effect on voluntary tax compliance especially for the informal traders. Ensuring fiscal exchange proved to be an important and significant stride towards ensuring sustainable voluntary compliance within the sector. Authorities therefore, should make it a priority that they put to good use tax revenues that they collect from the informal traders. This they should use it to provide basic necessities that will enable traders to conduct their businesses. Ensuring facilities like electricity, roads, conducive trading sites and other amenities goes a long way in convincing informal traders of the importance of being tax compliant. Therefore, the spending of tax revenue by the government should be on social and important projects and information should be forwarded to taxpayers to create a positive image on the spending pattern of the government.

### **Adopting efficient and effective assessment and collection procedures**

There is urgent need on the side of the authorities to upgrade its tax management systems in a bid to enhance certainty, fairness and efficiency in domestic resource mobilization. This can be done by linking the key institutions relevant to tax collection. Help counters manned by technical and knowledgeable staff should be introduced and enhanced throughout the authority's offices to bring services closer to the taxpayers. This will also improve communication between the taxpayers and the authority. The recent move by ZIMRA to adopt the new Tax Revenue Management System (TARMS) will go a long way in this regard.

### **Ensuring transparency within the system and that principles of fairness, certainty and equity are prioritized**

Ensuring a tax system that is fair to all certain and equal will go a long way in having many people to have faith in the tax system. The current scenario that exempts others from paying taxes whilst enforcing it on others in the same category makes a lot of people

to lose confidence and shun the whole system. From the study findings it was deduced that fairness or equity of the tax system has a significant effect on tax compliance. Therefore every effort should be put to ensure that the tax system is fair, certain and equal to all.

### **Taxpayer education**

Taxpayer education was found to have no impact on sustainable voluntary compliance of the informal sector. This means that this cannot be an area of priority to authorities. However ensuring tax information availability as a complement to the important tenants to sustainable compliance goes a long way in positively impacting sustainable voluntary compliance. It is difficult to expect compliance, moreover sustainable voluntary compliance, from an ignorant populace. Tax information facilitate record keeping in business, minimize the compliance costs, as well as create good business environment and marketing strategies.

### **Enforcing tax laws positively and ensuring cooperation amongst the various stakeholders**

Strategies that emphasizes negotiation and cooperation, are efforts meant to ensure transparency, taxpayer services and engagement. Such a strategy goes a long way in promoting quasi-voluntary compliance among firms operating in the informal sector. Tax laws should be enunciated in a way that encourage voluntary compliance and not as a way of seeking to punish potential taxpayers. Laws that encourage cooperation between potential taxpayers and the authorities should be put in place. This will go a long way in instilling as sense of responsibility in the taxpayer. This ultimately positively impacts compliance behaviour.

Finally, tax compliance will be developed just with the voluntary cooperation of the society with the tax authority. Simply relying only on carrot and stick approach has no sweeping result. Hence, the government and the tax authority have to capitalize on responsible citizens' approach in their effort of increasing the level voluntary compliance. Tax evasion and non-compliance is unavoidable in each general public or country. Therefore, it is worthwhile to recommend that the above approach has to be supported by legal enforcement and the efforts must complement each other.

## **5.7 Generalisation of findings**

The study established that poor administration of a tax system and compromising on its principles of fairness, equity and certainty significantly impact sustainable voluntary compliance behaviour of those in the informal sector. The study also found that failure on the part of the authorities to value informal sector businesses, thus fiscal exchange, affect the compliance behaviour of the sector. Although these findings were from a selected setting, they can be applied to all taxpayers in any setting. The findings can be generalised to a whole informal sector populace. This is premised on the fact that taxation is statutory and the informal sector in the country is homogeneous.

## **5.8 Research Limitations**

The study was based on the informal sector and required much information from the sector's participants. Because of the nature of these participants, the sensitivity of the study itself and the political environment especially which the participants find themselves in, the researcher in some cases faced difficulties in obtaining true and actual information that these participants hold. Besides challenges in obtaining information, time constraints in covering the targeted participants was also a challenge. This was mainly because of the widespread and mobile nature of the sector and the participants. The researcher with the assistance of research assistants used questionnaires in data collection. Because of the nature, culture of the participants and their seemingly remoteness to any paperwork requiring well-thought out responses, there was a possibility that the researcher might have got reserved data responses. In extreme cases zero responses occurred resulting in a moderate 58.2% response rate. Other cases saw people with little or no knowledge on tax matters partaking in the study. This placed limitations on the methodology the researcher used. The researcher tried to exploit his knowledge on ethics when he handed the questionnaires in order to overcome some of these challenges. The use of research assistants was also done to limit the impact of time constraints. Also thorough explanations on the purpose and benefits of the study to the participants were done in order to get maximum cooperation from the participants. The study also restricted itself to informal traders based at only one area in the city. Different perceptions might



have been obtained had the research covered many different areas where informal traders operate from. Besides, the study also was confined to only a few factors, whilst it is common knowledge that a lot of factors do impact sustainable voluntary compliance behaviour.

### **5.9 Suggestions for further research**

The conceptual model for this study investigated the impact that tax policies and administration have on sustainable voluntary compliance behaviour of the informal sector businesses. The independent variables were the policies and administrative tax factors such as the tax costs, tax education, taxation system and the fiscal exchange principle. However the study did not incorporate the impact of other factors and the macro environment that the informal businesses operate in have on their compliance behaviour. Besides, internal business factors of the informal sector enterprises seem to play a significant role in influencing sustainable voluntary compliance behaviour. It will be very fulfilling and interesting in future to investigate the impact that the macro environmental factors such as economic, political, social, psychological and internal business factors such as period of existence, revenue generating capacities, reported profits, management skills among others have on the ultimate compliance behaviour of the informal sector.

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## APPENDIX 1: LETTER OF TRANSMITTAL



# University of Zimbabwe

## **Graduate School of Management (GSM)**

Dear respondent,

My name is Sithole Tawanda, a student at the University of Zimbabwe undertaking a Masters of Business Administration degree in Finance (MBA). As part of the requirements of the course, I am required to undertake a research project in my area of study. My research topic is on **“An investigation of the impact that existent government taxation policies and other tax factors have on sustainable voluntary compliance behaviour of the informal sector in Zimbabwe”**. I am writing to invite you to participate in the research by filling in the questionnaire. The questionnaire should take about 15 minutes to complete. Your participation is entirely voluntary and the questionnaire is completely anonymous. I wish to assure you that the information you will provide will be treated with utmost confidentiality. Your ability to answer all the questions comprehensively and to the best of your knowledge will be highly appreciated. Your sincere and correct answers will be important in attaining this goal.

You can contact my study supervisor, **Dr. O. Muvingi** on cell **0779965258** or email [\*\*o.muvingi@hotmail.co.uk\*\*](mailto:o.muvingi@hotmail.co.uk) if you have any questions or comments regarding the study.

Thank you for your cooperation.

**Sithole Tawanda,**  
**MBA Student**  
**University of Zimbabwe,**



## APPENDIX II: QUESTIONNAIRE

### **Instructions**

This questionnaire is designed to collect information on the factors affecting tax compliance in SMEs and how these impact on sustainable voluntary compliance behaviour. The information obtained will only be used for academic purposes and shall be treated in utmost confidence. You are requested to complete this questionnaire as honestly and objectively as possible. Please tick in the appropriate box.

### **SECTION A:DEMOGRAPHIC INFORMATION**

1. Position of respondent in the organization.

- Business Owner
- Manager
- Other

2. Gender.

- Male
- Female

3. Education level.

- O level
- Certificate level
- Diploma holder
- Degreed
- Other

4. Knowledge and experience with tax issues.

- Yes
- No

5. How long has the organisation been in existence?

- Less than One year
- 1-5 Years
- 6-10 Years
- More than 10 Years

6. On average, what is your business' monthly turnover?

- Below \$100 000
- Between \$100 001 and \$200 000
- Between \$ 200 001 and \$300 000
- Between \$ 300 001 and \$400 000
- Over \$ 400 000

Please indicate whether you strongly agree (SA), agree (A), do not know (DK), disagree (D), or strongly disagree (SD) with the following statements about the tax system.

<b>SECTION B: TAX COSTS: PRESUMPTIVE AND INTERMEDIATE MONEY TRANSFER TAX POLICIES.</b>	<b>SA</b>	<b>A</b>	<b>DK</b>	<b>D</b>	<b>SD</b>
<b>B1.</b> There too many forms of tax for the sector.					
<b>B2.</b> The tax rates are too exorbitant.					
<b>B3.</b> Compliance costs are too high and demotivates us to comply.					
<b>B4.</b> Policies negatively impacts on business profits.					
<b>B5.</b> The policies do not promote sustainability for the small businesses within the sector.					
<b>B6.</b> Higher tax rates negatively influences sustainable voluntary compliance behaviour.					
<b>SECTION C: AVAILABILITY OF TAX INFORMATION:</b>					
<b>C1.</b> Tax information is readily available within the sector.					
<b>C2.</b> Many informal traders are aware of all tax matters.					
<b>C3.</b> Available tax information enables us to calculate our tax obligations.					
<b>C4.</b> Tax education for the sector should be simplified as most operators are not that educated.					
<b>C5.</b> Authorities often give tax updates to businesses within the sector.					
<b>C6.</b> Lack of tax information affect the company's tax					

compliance behaviour.					
<b>SECTION D: FAIRNESS, CERTAINTY AND EQUITY OF TAX SYSTEM:</b>					
<b>D1.</b> The tax system is riddled with corruption and malpractices by the enforcement agents					
<b>D2.</b> The tax system for the sector is not certain					
<b>D3.</b> Tax assessments are not equally administered to all businesses.					
<b>D4.</b> Tax assessments are not fairly administered to all.					
<b>D5.</b> Tax penalties are too high and unfairly administered.					
<b>D6.</b> Poor administration of tax principles of Fairness, Equity and Certainty negatively impacts on voluntary compliance behaviour of entities within the sector.					
<b>SECTION F: FISCAL EXCHANGE PRICIPLE:</b>					
<b>E1.</b> There are incentives for paying taxes.					
<b>E2.</b> The business values remittance of tax to the authorities					
<b>E3.</b> Entities within the sector value the payment of taxes to the authorities.					
<b>E4.</b> Authorities value businesses within the informal sector.					
<b>E5.</b> Entities within the sector receive access to public utilities and services funded by the taxes collected for the government by ZIMRA?					
<b>E6.</b> Non provision of utilities and basics services and infrastructure impacts negatively on compliance behaviour					

## SECTION F: SUSTAINABLE VOLUNTARY COMPLIANCE

Please indicate whether you strongly agree (SA), agree (A), do not know (DK), disagree (D), or strongly disagree (SD) with the following statements about the tax system.

	SA	A	DK	D	SD
<b>F1.</b> Costs associated with the Presumptive and Intermediate money transfer tax policies do not encourage businesses to voluntarily comply with their tax obligations.					
<b>F2.</b> Tax education and availability of information goes a long way in promoting sustainable voluntary compliance behaviour within the sector.					
<b>F3.</b> Ensuring a tax system that is fair, certain and equal to all encourages businesses to voluntarily comply with their tax obligations.					
<b>F4.</b> Spending tax revenues on social projects beneficial to the taxpayers makes them more willing to voluntarily comply					

